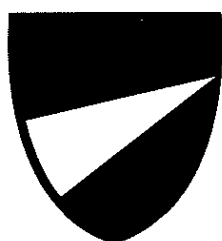


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By:
General Counsel – Vertu Motors plc

Date 29/07/21



Vertu
Motors plc

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ANNUAL REPORT & FINANCIAL STATEMENTS

For the year ended 28 February 2021

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Annual General Meeting	23 June 2021
Interim Results 2021/22	October 2021
Final Results 2021/22	May 2022

Performance Highlights

Operational Highlights

- Adjusted¹ profit before tax of £24.6m ahead of Analysts' forecasts (2020: £23.0m)
- 18 sales outlets added to the Group since 1 March 2020, including the addition of 3 new franchise partners to the Group's portfolio - BMW, MINI and BMW Motorrad
- Strong, stable management, supported by scalable, sector-leading in-house developed technology and systems, provides assurance of tight control of operations and swift execution of strategies
- Substantial growth in online retailing using the Group's ClicktoDrive sales technology platform
- Increased efficiency of transaction processing including use of robotic process automation
- 38,446 new and used vehicles delivered from 1 January to 31 March 2021, despite lockdown restrictions keeping showrooms closed
- Increased awareness of the Group's core brands delivered through strong, effective marketing campaigns including significant TV advertising campaigns
- Excellent customer experiences delivered in the new environment: Used Car Net Promoter Score in H2 of 84%

Outlook Highlights

- Strong start to new financial year with trading profits at a record level in the two months to April 2021. Adjusted profit before tax in the two months of £19.2m compared to £14.8m in the same months in 2019
- The Board expect the Group will deliver an adjusted profit before tax for the year ending 28 February 2022 in the range of £24.0m to £28.0m
- The Board is confident that, dependent on the financial performance of the Group, dividends can recommence in January 2022

Financial Highlights

- Group revenues of £2.5bn (2020: £3.1bn) (like-for-like decline of 21.6%) impacted by Government imposed lockdowns
- Gross margin increased to 11.8% (2020: 10.9%)
- Cost reductions² exhibited delivering a £16.0m (7.2%) reduction in like-for-like operating expenses in the nine months from 1 June to 28 February
- Growth in Adjusted¹ operating profit to £33.8m (2020: £32.2m)
- Profit before tax of £22.4m (2020: £7.3m)
- Underlying earnings per share increased to 5.27p (2020: 4.99p)
- No final dividend recommended in light of the Government support received during the Year
- Net tangible assets per share of 50.2p (2020: 46.0p) reflecting very strong asset base
- Record Free Cash Flow³ of £48.4m delivered
- Adjusted⁴ net cash of £1.4m at 28 February 2021 (2020: net debt £2.8m)

¹ Excludes non-underlying items.

² Excludes grant receipts in respect of the furlough scheme.

³ Net cash flow from operating activities less leasing cash flows and net capital expenditure incurred.

⁴ Excludes amounts drawn on used vehicle stocking loans and IFRS 16 lease liabilities.

At a Glance



149 sales outlets



32 car, bike and commercial franchise partners



115 locations across the UK



5,751 colleagues



130,208 vehicles sold



£2.5bn revenues



84% Used Car Customer Experience
(Net Promoter Score)



87% of Colleagues consider Group as a great
place to work



FARNELL

Car



Commercial



Bikes



Group Stakeholders

Engaging with Stakeholders - section 172 statement

Positive relationships with the Group's stakeholders are key to the long-term success of the Group.

The Group engages with them to understand what matters to them and take this into account when setting strategy and also in our day-to-day business operations. Our key stakeholder groups are identified below. We have set out on these pages how the business engages with these stakeholders, the key interests raised and the outcomes of that engagement.



Colleagues

How we engage:

Engagement with our colleagues takes place through face-to-face meetings including regular appraisals, team meetings, full Team Briefings and through a number of channels including our intranet, employee newsletters and regular blogs from the CEO and CFO. A comprehensive annual colleague satisfaction survey is undertaken to gain feedback, alongside a quarterly pulse survey. Outstanding performance is recognised through personal letters from the CEO, annual colleague awards.

Key interests raised:

- Pay and benefits
- Communication
- Wellbeing
- Training and development
- Colleague Recognition
- Business performance
- Community involvement and fundraising

Outcomes of engagement:

- Ensuring the safety and wellbeing of colleagues during the COVID-19 pandemic
- Pay supported above furlough grant levels to ensure colleague hardship minimised
- Regular video communication to all colleagues
- Appointment of director for colleague engagement
- Local and divisional colleague satisfaction action plans



Customers

How we engage:

Customer satisfaction surveys are regularly undertaken through both the Group's Manufacturer partners and via Trust pilot reviews. The Group has a dedicated customer services team. We also communicate via social media and regular blogs. Customer focus group meetings are regularly held to obtain feedback.

Key interests raised:

- Service delivery
- Ability to self-serve online
- Product knowledge including electric vehicles and alternative fuels
- Access to local service
- Value for money
- Community involvement

Outcomes of engagement:

- Prioritisation of customer safety on the reopening of operations
- Website and email communications to the 518,000 customers on the Group's database
- Improved sales process giving customers more control over their purchase
- 14-day money back guarantee established

Group Stakeholders (continued)

Engaging with Stakeholders - section 172 statement (continued)



Investors

How we engage:

The Executive Directors meet regularly (in person or via conference call) with existing and potential investors. We also provide webcasts and events throughout the year.

Key interests raised:

- Financial Performance
- Capital Allocation
- Execution of strategy
- Competition
- Sustainability

Outcomes of engagement:

- Meetings held throughout the year
- Technology 'teach-in' delivered highlighting technological development
- Dividend suspended due to Government support received intention to resume in FY22
- Feedback obtained on Remuneration Policy
- Launch of 'Driving Sustainability'



Manufacturer Partners

How we engage:

Group management is organised along franchise lines to ensure sufficient knowledge and aid communication. Regular meetings occur with Manufacturer management. The Group is represented on the dealer franchise boards.

Key interests raised:

- Customer satisfaction
- Financial performance
- Volume of vehicles sold
- Quality of premises and compliance with standards
- Portfolio management and representation

Outcomes of engagement:

- Execution of franchise developments including multi-franchising
- Expansion of the Group
- Manufacturer partners provided cash and trading support through the COVID-19 restrictions
- Agreement of volume targets
- Investment in premises



Suppliers

How we engage:

We look to secure excellent value for money, whilst minimising risk in our supply chain. Our purchasing team hosts events and ensures a positive two-way communication process with all Group suppliers. Our suppliers sponsor and attend the Group's annual colleague awards ceremony.

Key interests raised:

- Group strategy
- Collaborative working
- Integration of systems

Outcomes of engagement:

- Supplier event held to communicate strategy
- Cost reductions agreed during periods of dealership closure driven by COVID-19 restrictions

Group Stakeholders (continued)

Engaging with Stakeholders - section 172 statement (continued)



Finance Providers

How we engage:

Access to finance is essential for the Group to execute its strategy as well as providing customers with the ability to finance vehicle purchases. We work together with our financial partners to ensure our customers have access to finance to purchase their vehicles.

Key interests raised:

- Customer satisfaction
- Acquisition financing
- Financial Performance
- Compliance with regulations
- Behaviour of the credit book
- Finance penetration achieved

Outcomes of engagement:

- Covenant waivers and amendments obtained in H1
- Retail finance commission arrangements revised
- Renewal of annual facilities



Communities

How we engage:

We are proud to give something back to the communities local to our dealerships. We provide regular community updates via social media, participate in volunteering and fundraising initiatives, sponsor local sports teams and participate in 'speakers for schools' a scheme to connect schools with inspiring and influential people.

Key interests raised:

- Funding of local projects
- Local sponsorship
- Local operational issues
- Education and employment

Outcomes of engagement:

- Engagement with schools via virtual 'speakers for schools' events
- Investment in apprenticeship programme to provide youth employment opportunities
- Sponsorship and naming of Newcastle Eagles Arena providing funding to Eagles Foundation engaged in community work
- Launched 'Driving Sustainability' programme

Group Stakeholders (continued)

Engaging with Stakeholders - section 172 statement (continued)



Government and
Regulators

How we engage:

The Group maintains regular contact with Government and regulatory stakeholders and is a member of expert working groups, such as the National Franchise Dealership Association ('NFDA')

Key interests raised:

- Marketing and Communication
- Health and Safety
- MOT compliance
- Compliance with laws and regulations
- Fair treatment of customers

Outcomes of engagement:

- Input to and member of industry working groups
- Responded to FCA and COVID-19 working practice consultations

During the year, the Directors have acted to promote the success of the Company for the benefit of shareholders while having regard to the following matters:

- Likely long-term consequences
- Interests of the Group's colleagues
- Business relationships with suppliers and customers
- Impact on the community and environment
- Reputation for high standards of business conduct
- Acting fairly between shareholders

Chairman's Statement

I am pleased to report that the Group has delivered a resilient, profitable result, in excess of Analysts' forecasts in this unprecedented year. This result reflects positively on all management and colleagues within the Group, who have adapted to new ways of working and executed exceptionally well in the most challenging of circumstances. I would like to personally express my appreciation and thanks to the whole Vertu team. The Board is also extremely grateful for the significant Government support received both in respect of furloughed colleagues and business rates relief, and the assistance provided by its Manufacturer partners. The latter demonstrates the partnership approach and a key strength of the franchised dealer model.

On 1 June 2020, the business emerged from the first lockdown stronger in many ways for the experience. Trading conditions throughout the summer months that followed were bolstered by pent-up consumer demand. The period also saw the additional benefit of cost reductions, achieved through the roll out of technology developed during the lockdown, which enhanced efficiency across a number of different areas of the business.

When the UK faced further restrictions from November onwards, the Group's showrooms were again closed to customers. The Group's strengthened customer and online offering, together with its strong brands and local presence, meant that vehicle sales continued on a click and collect/home delivery basis, despite the restrictions, at much higher levels than were seen in the first lockdown. The Group's customers could choose to buy their used car fully online or complete part of their buying journey online and part in direct remote contact with either our local dealership or central teams. Central sales and aftersales enquiries were handled efficiently by the Group's customer contact centre which was able to switch seamlessly between home and office working using the Group's digital telephony technology. To illustrate the progress made, 38,446 vehicles were delivered during the latest restrictions when showrooms were closed from 1 January to 31 March, demonstrating the strength of the Group's online offering, customer propositions, strong brands, national footprint and reputation for strong customer service.

The Board is mindful that the immediate future of the Group will be affected by the continued uncertainty around COVID-19 and the Government's reaction to it. The Group is, however, strong and resilient. It has one of the strongest balance sheets in the sector, and this was further enhanced in the year through the generation of a record level of Free Cash Flow of £48.4m. Costs were well controlled throughout and, whilst it was regrettable that many of the Group's colleagues have been furloughed at times during the year, capacity levels were carefully matched to demand as the Group moved between lockdowns.

The Board is optimistic that the Group's proven track record of execution and strong balance sheet will allow the continued expansion of the Group, to deliver a business of greater scale and efficiency. The forthcoming post COVID-19 period will again evidence some consolidation in the Retail sector. Vertu is in a strong position to take advantage of this environment as appealing opportunities arise. Our strong financial position, healthy appetite for growth, considerable digital expertise and first-class leadership means that we can look forward with optimism.

The business is fifteen years old in November 2021 and has achieved much in that timeframe. From floating as a cash shell in December 2006, the business is now one of the largest and strongest operations in the UK automotive retail sector. Whilst justifiably proud of these achievements, the Board remains focused on the future and building on the very successful platform put in place. We guard against complacency.

Andrew Goss
Chairman

Group Strategy

Mission & Values

The aim for every dealership to be the best retailer in their respective town or city.	To deliver an outstanding customer motoring experience through honesty and trust	Vertu Motors to be the most admired and respected dealer group in the automotive industry
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PASSION | RESPECT | PROFESSIONALISM | INTEGRITY | RECOGNITION
OPPORTUNITY | COMMITMENT

Strategic Goals



Growth

To grow as a major scaled franchised dealership group and to develop our portfolio of Manufacturer partners, whilst being mindful of industry development trends, to maximise returns



Digitalisation

To be at the forefront of online retailing and digitalisation in the sector, delivering a cohesive "bricks and clicks" strategy



Cost Focus

To reduce the cost base of the Group through scale economies using digitalisation of processes to reduce costs



Colleague & Customer focus

To develop and motivate the Group's colleagues to ensure consistency of operational excellence and delivery to customers across the business



Ancillary businesses

To develop ancillary businesses to add revenue and returns which complement the core business

Sustainability Goals



Work with our Manufacturer partners to provide increasingly sustainable choices for customers



Reduce the environmental impact of our business



Care for our colleagues and support our communities

Group Strategy (continued)

Update on Strategy Execution and Associated Risks

The Group is now in its fifteenth year and has executed a consistent strategy to build a scaled UK automotive retailer with a strong culture, a reputation for execution and excellent relations within its Manufacturer Partners. The Group now has normalised annual revenues of £3.7bn and has built a substantial base of tangible net assets.

The Group's key long-term strategic objectives remain:

- To grow as a major scaled franchised dealership group and to develop our portfolio of Manufacturer partners, whilst being mindful of industry development trends, to maximise long-run returns.
- To be at the forefront of online retailing and digitalisation in the sector, delivering a cohesive 'bricks and clicks' strategy.
- To reduce the cost base of the Group through scale economies and digitalisation of processes.
- To develop and motivate the Group's colleagues to ensure consistency of operational delivery across the business.
- To develop ancillary businesses to add revenue and returns which complement the core business.

Growth

Portfolio Development and Changes

As part of the strategy for scale, the Group historically has sought to add additional Manufacturer partners, not represented in the portfolio, to facilitate additional growth opportunities. A noticeable gap in the Group's portfolio of Manufacturer partners was closed in December 2020, with the addition of the much sought-after BMW, MINI and BMW Motorrad franchises. Both BMW and MINI are extremely well positioned to take advantage of the electrification of the UK automotive market over the next decade and the addition of these franchises had long been a strategic objective of the Group. The Group now operates 32 car, van and motorcycle franchises which is more than any other UK player.

The well-timed acquisition of a BMW/MINI market area of 12 sales outlets in five locations: York, Sunderland, Teesside, Durham and Malton, achieved immediate scale in a region where the Group is headquartered and already has strong representation. The outlets were acquired from The Cooper Group Limited, part of Inchcape plc, for total consideration of £19.6m. The assets acquired include £16m of freehold and long leasehold properties and a payment was made in respect of goodwill of £0.8m.

For the year ended 31 December 2019, these dealerships generated revenues of £305m and a loss before tax of £6.0m. The Group has developed a clear plan to drive performance improvements over a three-year period and the integration of these businesses into the Group has proceeded in line with this plan. The Group's systems and processes were implemented immediately on acquisition, in order to facilitate business improvements in the areas of customer experience and financial performance. Despite the COVID-19 related restrictions imposed immediately post acquisition, the acquired businesses have performed ahead of the business plan, which has not been adjusted for the impact of these restrictions. The Board is therefore optimistic of a progressive turnaround of these businesses and the generation of significant shareholder value, particularly given the minimal levels of goodwill paid for the businesses. The businesses have been branded Vertu, reflecting the continued growth of the Vertu brand in Premium franchises in the UK and supported by the increasingly successful website, vertumotors.com.

Following the Group's entry into the Kia franchise in January 2020, further growth with the Kia franchise was achieved when, on 1 October, the Group acquired the Nottingham Kia business from Sandicliffe for £1.9m, taking a short-term lease on the dealership premises. This business will be relocated this month into existing large Group leasehold dealership premises in Nottingham. This location currently represents one of two Group Volkswagen franchise outlets located in the city and, whilst new vehicle activity will be consolidated in the remaining flagship Nottingham Volkswagen dealership at West Bridgeford, Volkswagen authorised repair and approved used vehicle sales activity will continue in this location, alongside the relocated Kia franchise.

Group Strategy (continued)

Growth (continued)

Portfolio Development and Changes (continued)

Subsequent to the financial year end, on 1 March 2021 the Group opened a Macklin Motomation used vehicle outlet in Glasgow, following the acquisition in late 2020 of a vacant freehold dealership from Lookers plc. Further on 12 March 2021, the Group acquired the trade and assets of a Honda car dealership in Huddersfield from Hepworth Motor Group. The purchase of this leasehold dealership complements the Group's existing Honda outlets in Yorkshire and the consideration, settled in cash, was £0.8m. The Group now has considerable scale in Yorkshire, operating 23 outlets in the county.

The Group continues to actively manage its dealership portfolio including the regular assessment of viability and returns achieved from each business and franchise and the potential for property gains and cash generation from the portfolio. Execution of multi-franchising, in order to maximise potential returns of each location, is seen as a key element of the Group's strategy in this regard. Increased flexibility of Manufacturer representation requirements and varying formats will aid this process, allowing investment levels to be reasonable and multi-franchising to be increased.

During the Year the Group added the Citroen brand to its existing Ford dealership operations in Worcester and Macclesfield. The Group also added the Peugeot franchise to the Group's Edinburgh dealership which already represented Kia, Suzuki and Mitsubishi. Further multi-franchising activity is planned to be delivered in the coming months, with several projects currently being progressed.

Further network changes and consolidation for franchised retailers are anticipated. Potential opportunities for growth for those established retail groups with a proven track record, strong financial position and positive relationship with Manufacturers remain strong.

Further to the regular review process outlined above, a number of disposals and closures have been implemented, in line with the Group's capital allocation disciplines, both during the year and post year end, to optimise the portfolio:

- The Group sold the trade and assets of its Citroen dealership in Leicester to Manufacturer-owned Robins and Day on 28 February 2021. The leasehold premises were retained and the dealership is currently being redeveloped and refranchised to reopen as a franchise outlet in the coming months.
- The Group disposed of its ancillary wheelchair accessible vehicle ("WAV") business, Bristol Street Versa, to Gowrings Mobility, a well-established WAV operator on 30 November 2020. The Group will continue to supply commercial vehicles for conversion to the enlarged entity. This disposal generated £1.7m of cash. In FY20 the business delivered a loss before tax of £68,000.
- On 26 April 2021, the Group closed a used car sales and Volkswagen service outlet at Whitchurch, Herefordshire. The vast majority of colleagues were transferred to the Volkswagen dealership in Hereford and it is anticipated that a large proportion of the dealership's activity will be retained in Hereford. The freehold property was sold on 7 May 2021 yielding cash proceeds of £430,000, slightly in excess of the book value. In addition to the property disposal, working capital of approx. £0.9m has been released to be re-invested in higher return assets.
- Following the acquisition of BMW Sunderland, the Group operated two accident repair centres in the city. On 1 April 2021, these operations were consolidated into one with a surplus freehold property now being marketed for sale.

Move to Agency Model

The Board notes that it is likely that the next few years will see an evolution of the business model with regards to the sale of new cars in certain franchises. The Group undertakes sales in a number of franchises on an agency basis in the fleet market and anticipate that a number of Manufacturers will move new retail sales to an agency model in the next few years. It is envisaged that such a move would reduce reported revenues, increase reported operating margins and reduce working capital investment. The Board will keep shareholders updated on developments in this area

Group Strategy (continued)

Growth (continued)

Increasing Importance of Scale and Brand

The Group's strategy is to continue to grow through the acquisition of both volume and premium franchised dealerships. Scale benefits include: a national online and offline co-ordinated marketing strategy based on a limited number of strong brands; maximising the benefits of the Group's national footprint; the Click2Drive platform; scaled highly efficient contact centres; dedicated franchise management; purchasing efficiencies; and, access to competitive consumer finance packages for the Group's customers.

Brand awareness is vital in an online environment, with increasingly more of the sales process, either in the research or buying phase, completed online. The Group currently operates four brands in the UK, Bristol Street Motors (England Volume), Macklin Motors (Scotland), Farnell (Jaguar Land Rover) and Vertu Motors (other premium franchises). Having more than one brand allows the Group the flexibility to differ its offers and approach between geographies or between volume or premium franchises. During the course of 2021, the Group's Jaguar Land Rover dealerships will be rebranded to Vertu, bringing all the Group's premium businesses under this one brand. When this is complete, the Vertu brand will have 58 outlets in the UK, Bristol Street Motors 77 and Macklin Motors 14.

Brand awareness is supported by the Group's marketing activity, including extensive TV advertising campaigns and sponsorship of Formula One coverage on Channel 4, secured for a second consecutive year for the Macklin Motors and Bristol Street Motors brands. In addition, sponsorship arrangements have commenced for the Vertu Motors brand with Yorkshire and Durham County Cricket Clubs to increase brand awareness in two of the Group's key regions of operation. The success of the Group's marketing activity is supported by a recent YouGov survey, which included responses from over 5,000 adults collected over the period from 1 October 2020 to 1 March 2021. Bristol Street Motors currently has the highest prompted awareness of the Group's brands, with over 42% awareness, the second highest of any automotive retail brand in the sector, including the so-called 'disruptors'.

The strength of our brands and marketing activity led to the Group's websites collectively receiving a monthly average of 1.4m unique visits over the Year (2020: 1.2m). The Group saw a 29% year on year increase in sales enquiries received from online sources in the period from 1 June to 28 February, however, as expected in the light of restrictions, walk in dealership visits were down year on year.

Of equal importance to brand awareness, is brand reputation. The Group's Mission, "to deliver an outstanding customer motoring experience through honesty and trust" recognises the importance of excellent customer service and high ethical standards. The Group's commitment to customer service is verified through customer satisfaction feedback, gathered either by our Manufacturer partners or from a third-party survey (Judge Service) in respect of used cars. The Group's dealerships regularly feature in the top quartile of our Manufacturer's customer service leagues and perform significantly above average for the sector overall. The Group consistently achieves a net promoter score ("NPS") in excess of 80% from Judge Service. In H2 the Group received feedback from over 10,400 Group used car customers via Judge Service averaging a NPS score of 84%.

Group Strategy (continued)

Online and Omni-channel Retailing

There is a significant degree of confusion over the terms online and omni-channel retailing. Whilst online sales could be defined as pure ecommerce transactions with no human involvement, convention in the sector is that online sales relate to any sale where the enquiry originated from an online source. The current automotive retailing environment in the UK is certainly heavily digitised and omni-channel in nature – customers come in and out of the digital world, interacting by phone and video call extensively with dealerships as well as undertaking dealership visits and crucially, test drives. No one customer's journey is now the same, since the options and flexibility offered by platforms such as the Group's Click2Drive technology platform puts the customer in the driving seat as to how to buy a car. Given our goal is firmly to sell a car, the Group is agnostic as to which journey the customer chooses as long as a sale is achieved. Our experience is that pure ecommerce online transactions are a small percentage of retail sales and omni-channel retailing is probably a better term to describe the current position. Where the term online is used in this report, it is used in a much wider sense and is akin to omnichannel. In time, greater definition of terms in the sector is vital to increase understanding.

The Group continues to be at the forefront of developments to provide customers with innovative ways to purchase and interact online. The Group's online functionality is a fully integrated end to end process termed Click2Drive, allowing customers the flexibility of a purely online purchase, or one which includes interaction with our sales teams through telephone or video appointments, should they require assistance with their vehicle search or purchase. If the Group's customers choose to transact fully online, they are able to value their part exchange, choose a suitable finance option, make payment and arrange home delivery of their vehicle, including the collection of any part exchange. Every one of the Group's used vehicles is prepared to a high standard, in accordance with a strict vehicle preparation policy. All used vehicle customers also benefit from a 14-day money back guarantee and a 90-day warranty as standard. This is superior to the current offering of disrupters.

The strength of this proposition, together with the Group's established brands, national dealership network and reputation for excellent customer service, meant that the Group delivered 38,446 new and used (retail and fleet) vehicles from 1 January to 31 March 2021, despite customers being unable to visit showrooms or test drive their chosen vehicles. 257 (0.7%) of these vehicles were purchased completely online by the Group's customers. The majority of customers therefore elected to interact with the Group's dealerships within the sales process. 4,700 customers have chosen to reserve their vehicle online, through the payment of a £99 deposit, since this new feature was introduced in May 2020. Use of this reservation facility has been increasing over time, with over 1,100 deposits paid in January and February 2021. Customers reserving vehicles in this way exhibit a very high conversion to ultimate sale.

Disrupters who have recently entered the used car market have very little, if anything, to add to the sector in terms of customer proposition or experience, and they do not sell new cars or in some cases, support customers thereafter with their servicing needs. The best in class in the sector, and Vertu in particular, have a fully established "bricks and clicks" platform and sell far more used vehicles than these new entrants. The Group also builds relationships with customers over many years facilitating the supply of new and used cars and customer servicing activities.

The Group's national franchise dealer network, with a strong customer service reputation, gives customers the confidence to transact purely online, however, many still choose to interact with the Group in their buying journeys and we expect that this will continue. A local presence not only aids the building of brand awareness but remains essential to the delivery of customer service, with the majority of customers preferring to undertake a test drive prior to purchasing the big-ticket item of a car. Local aftersales support is also an important factor in many vehicle buying decisions. The Group retains a high proportion of its vehicle sales customers into the higher-margin service channel and this also aids overall long-term sales

Group Strategy (continued)

Online and Omni-channel Retailing (continued)

retention. A “bricks and clicks” model is therefore crucial in this sector, with the Group’s network of physical dealerships across the UK at the centre of its customer offering and vital for the delivery of service and repair work to our customers. The fact disruptors to the sector such as Cazoo and Tesla have been developing physical networks is illustrative of their recognition of the need to have a physical presence in addition to their purely online capabilities.

Cost Reduction

Enhanced scale of operations allows the Group to maximise on purchasing benefits, to provide process efficiencies with common systems and technology, and to gain marketing synergies from promoting a larger network for each of the Group’s brands.

A key feature of the Group’s digitalisation strategy has been to use system integration and robotic process automation to enhance productivity and reduce the cost base of the Group. Enhanced integration of the Group’s sales showroom and financial systems in FY21 facilitated significant efficiency improvements in processing vehicle sale transactions. By way of example, robotic processes have now automated the taxation of each used vehicle the Group sells with the DVLA. Similar technology has also automated the invoicing of all vehicles traded at auction. Such in-house developed system automations have enabled the Group to reduce costs, with the delivery of a programme completed in July 2020 yielding anticipated annualised savings of £10m. The Group continues to develop technology to maximise efficiency and aid decision making.

Motivated, Professional Colleagues

The Group seeks one consistent culture across all its operations. Delivery of the Group’s Mission Statement (“To deliver an outstanding customer motoring experience through honesty and trust”) through application of the Group’s Values (“Professionalism, Passion, Recognition, Integrity, Respect, Opportunity and Commitment”) is at the core of how the business operates. The Group has high standards, with colleagues expected to execute the basics of the business and delight customers, acting with energy and urgency.

The Group’s colleagues are therefore at the core of the delivery of the Group’s vision and strategy and their passion and commitment has certainly been demonstrated over the Year. It was regrettable that so many of the Group’s colleagues were put into the Government Furlough scheme as virus restrictions closed substantial parts of the business. The Group provided enhanced benefits, designed to ensure that no colleague suffered undue hardship whilst unable to work. The Group’s Board and senior management teams also accepted reductions to their remuneration during the Year. Colleague communication was vital so frequent and open dialogue was maintained throughout the Year. To measure the success of the Group’s colleague engagement, the Group carries out an annual colleague satisfaction survey as well as shorter quarterly surveys. Over 4,200 (84%) of Group colleagues participated in this year’s survey in October 2020. Perhaps in recognition of the support given to colleagues during the pandemic, 87.0% of responding colleagues considered the Group a great place to work, up from 83.9% in the previous year. In addition, 98.2% of colleagues knew the Vertu Values and 93.3% believed that the Directors actively practiced these Values. These scores reflect the strength and consistency of the Group culture that has been built up over time.

I would like to personally thank every Vertu colleague for their hard work and commitment during the Year. I am proud to be the leader of such an exceptional team of people, who treat others the way they themselves would like to be treated.

Group Strategy (continued)

Responding to Regulatory Change

Electrification and Alternative Powertrains

Potential future development of the wider automotive sector has in recent years been linked to the development of Connected, Autonomous, Shared and Electric (CASE) vehicles. The ongoing impact of COVID-19 will almost certainly affect the 'Shared' element of mobility, with the potential that consumers shy away from public and shared transport modes, at least in the short-term. It is also apparent that, whilst increased autonomy is certainly assisting drivers, full autonomous capability remains a long way off, with technological, regulatory and legal considerations weighing heavily.

The UK Government's stringent objective to achieve Net Zero in terms of Carbon emissions is driving significant change to the powertrains used by new vehicles. 2030 is now the date the UK proposes to phase out internal combustion engines in respect of new vehicle sales. A glide path is therefore needed in terms of technological advancement and Government support in terms of vehicle engineering, subsidies to promote uptake and a national infrastructure for recharging which is capable of coping with significant growth in electric vehicle sales. The SMMT estimates that a full, zero emission-capable UK new car market will require 1.7 million public charge points by the end of the decade and 2.8 million by 2035, costing some £16.7 billion. The UK has a long way to go in this regard.

The level of customer adoption of electric and alternatively fuelled vehicles is increasing in the UK reflecting higher supply, enhanced ranges and more interest from customers. The SMMT reported that 2020 was the best ever year for electric cars, with battery and plug-in hybrid vehicle market share increasing to 10.7%, albeit in an overall reduced market, and with regulation requirements being the key driver rather than customer preference. Group sales of electric and alternatively fuelled vehicles doubled over the Year to 2,356 vehicles, representing 9.3% of the Group's sales of new retail vehicles.

The move to electric has undeniably put Manufacturer businesses, cash levels and future returns under pressure, with this being exacerbated by the impact of COVID-19. A recent study by the Financial Times highlighted that the cost of production of electric cars is expected to continue to exceed that of the combustion engine vehicle until beyond 2030. This is even after taking into account the expected reduction in the cost of battery production. According to the SMMT, price is one of the main factors holding 52% of today's potential buyers back from purchasing an electric vehicle. This was perhaps recognised by the recent changes in the UK to the plug-in grant scheme, which is now targeted exclusively at lower priced cars.

Over 40% of the Group's gross profit has historically arisen from its aftersales operations, namely the provision of servicing and repairs and the retailing and wholesaling of parts. Pure electric vehicles require less mechanical service intervention than those with an internal combustion engine, however, they will not form a majority of the vehicle parc until well after 2030 (source: National Grid FES 2020 report). Thereafter, the potential diminution in servicing, as a result of the electrification of the parc, is expected to be mitigated by the need for increased specialist equipment, technology and knowledge to maintain these vehicles, connectivity and a growth in prepaid maintenance programmes, all retaining a greater share of maintenance work within the franchise dealer network. The Group is developing substantial expertise in its service departments in the area of batteries. Leeds Volkswagen, for example, is only one of 15 specialist battery centres in the Volkswagen network in the UK. With our Manufacturer relationships, scale, financial strength and expertise, the Board sees the drive train transition as an opportunity rather than a threat.

Group Strategy (continued)

Responding to Regulatory Change (continued)

FCA

Following the publication of the FCA's final findings in connection with their review of motor finance, the Group amended its sales processes in January 2021 to ensure that its arrangement with finance providers were aligned with the ban of discretionary commission models. These changes have been seamlessly introduced, aided by the Group's in-house developed sales technology platform, Click2Drive. The changes have not had a material impact on earnings from finance commission to date.

UK withdrawal from the EU

The UK's future trading arrangements with the European Union are now clear, with agreement having been reached prior to the 31 December 2020 deadline. The SMMT reported that 7 out of 10 vehicles sold in 2020 in the UK were imported from Europe. The application of zero tariffs and quota free trade was therefore critical to a strong new car market in the UK. Clarity over the UK's future relationship with the EU has removed a major sector uncertainty.

The Sterling Euro exchange rate remains an important factor in the pricing and import of vehicles manufactured in Europe into the UK. Since 1 January 2021, Sterling has strengthened against the Euro and a stronger pound helps make imported new cars more affordable to UK buyers.

Strategic Summary

The Group's stable and experienced management team and financial strength ensures that the Group is well positioned to take advantage of opportunities arising and we remain ambitious to do so. We will ensure that capital is allocated to those activities, locations and franchises that are best placed to meet the competitive challenges arising, to provide the best growth opportunities and maximise return on invested capital.

We will continue to innovate to meet changes in customers' needs, leveraging our brand strength, reputation for excellence in customer service and national footprint to maximise on the available online opportunity. We will execute cost saving initiatives, enhance operational efficiency and pursue other new business opportunities which complement the Group's core activities. The goal is to drive growth in the cash flows of the business to provide returns for shareholders.

Key Performance Indicators

The Group has a number of Key Performance Indicators ("KPI's") by which it monitors its business. These include analysis of results by channel; as set out on page 18, together with the below:

	KPI	Definition	Performance	Risk Factor Link
Financial KPIs	Underlying EPS	Underlying profit after tax divided by weighted average number of shares (note 13)	FY21 – Underlying EPS of 5.27p FY20 – Underlying EPS of 4.99p	1 2 3 4 5 6 7 8 9 10 11 12 13 14
	Underlying PBT	Profit before tax and non-underlying items	FY21 – Underlying PBT £24.6m FY20 – Underlying PBT £23.0m	1 2 3 4 5 6 7 8 9 10 11 12 13 14
	Gross Margin by channel	Gross profit divided by revenue by channel	See page 18	2 3 4 5 6 9 14
Strategic / Operational KPIs	Like-for-Like Used Volume growth	Number of used vehicles sold in dealerships with comparable trading periods in two consecutive years	FY21 – decline of (26.6%) FY20 – decline of (0.1%)	2 3 5 6 9 12 13
	Like-for-Like New Retail volume compared to UK private registrations	Number of new retail vehicles sold in dealerships with comparable trading periods in two consecutive years compared to the movement in UK private registrations	Group FY21 – decline of (28.9%) FY20 – decline of (8.9%) UK private registrations FY21 – decline of (29.3%) FY20 – decline of (4.8%)	2 3 5 9 12 14
	Like-for-Like Service Revenue growth	Labour sales activity for the servicing, repair and preparation of motor vehicles in dealerships with comparable trading periods in two consecutive years	FY21 – decline 15.0% FY20 – growth 6.8%	2 6 8 9
	Online Growth	Website visits to all Group trading websites	FY21 – 20.9m visitors FY20 – 15.7m visitors	2 3 7 9 10 11
	Customer Service	Customer service is measured via email survey responses from customers gathered by our manufacturer partners for new vehicles or on Judge Service for used vehicles	97% (FY20: 97%) of our used vehicle customers would recommend us – Judge Service	4 7 8 9

Operating Review

Overview

This unprecedented Year has been impacted by successive lockdowns as a Government response to COVID-19. The period from 1 March to 31 May 2020 saw the peak registration month of March increasingly impacted by a pre-lockdown slowdown, until the first national lockdown was initiated on 23 March. The Group was then significantly impacted for the remainder of the first quarter of the Year. Vehicle sales activity was initially halted and the Group's aftersales operations opened on a much reduced basis, to provide only essential repairs to keep key workers and their vehicles on the road. The period from 1 June to 31 October saw dealerships able to reopen to customers under social distancing restrictions and trading benefitted from significant levels of pent-up demand following the first lockdown. The remaining period from 1 November through to 28 February saw further local and national lockdowns, which again closed sales showrooms to customers for prolonged periods. However, in contrast to much of the first national lockdown, sales of vehicles were permitted through click and collect or home delivery. In this period, our service departments remained fully operational as an essential service and saw near normal levels of demand. In contrast, trade parts operations and accident repair centres have seen continued year-on-year declines in activity due to lower accident levels as journeys undertaken fell below normal levels in the UK.

The Group's revenues and margins are shown below. The impact of the first national lockdown on trading in the first quarter of the financial year, March to May, was very significant. This quarter has therefore been shown separately, along with the remaining nine month period and full financial year below:

	Mar to May FY21 £'m	June to Feb FY21 £'m	FY21 £'m	Mar to May FY20 £'m	June to Feb FY20 £'m	FY20 £'m	Mar to May Year on Year Variance £'m	June to Feb Year on Year Variance £'m
Revenue								
New	132.2	607.5	739.7	299.3	563.2	862.5	(167.1)	44.3
Fleet & Commercial	77.1	501.3	578.4	225.7	482.8	708.5	(148.6)	18.5
Used	92.6	915.8	1,008.4	335.2	900.2	1,235.4	(242.6)	15.6
Aftersales	30.4	190.8	221.2	66.7	191.4	258.1	(36.3)	(0.6)
Total Group Revenue	332.3	2,215.4	2,547.7	926.9	2,137.6	3,064.5	(594.6)	77.8
Gross Profit								
New	11.7	42.6	54.3	19.4	43.3	62.7	(7.7)	(0.7)
Fleet & Commercial	3.6	19.6	23.2	7.1	18.7	25.8	(3.5)	0.9
Used	7.7	86.2	93.9	27.8	74.3	102.1	(20.1)	11.9
Aftersales	16.5	113.1	129.6	37.1	106.4	143.5	(20.6)	6.7
Total Gross Profit	39.5	261.5	301.0	91.4	242.7	334.1	(51.9)	18.8
Gross Margin								
New	8.9%	7.0%	7.3%	6.5%	7.7%	7.3%	2.4%	(0.7%)
Fleet & Commercial	4.7%	3.9%	4.0%	3.1%	3.9%	3.6%	1.6%	-
Used	8.3%	9.4%	9.3%	8.3%	8.3%	8.3%	-	1.1%
Aftersales ¹	46.9%	49.7%	49.3%	46.5%	47.1%	46.9%	0.5%	2.6%
Total Gross Margin	11.9%	11.8%	11.8%	9.9%	11.4%	10.9%	2.0%	0.4%

¹ Aftersales margin expressed on internal and external revenues

Operating Review (continued)

Overview (continued)

Volumes of vehicles sold by the Group on a like-for-like basis for the same periods were:

	Mar to May FY21	Jun to Feb FY21	FY21	Mar to May FY20	June to Feb FY20	FY20	Mar to May FY21 % Var to FY20	June to Feb FY21 % Var to FY20
Used retail vehicles	5,813	55,897	61,710	22,446	61,651	84,097	(74.1%)	(9.3%)
New retail cars	4,771	18,324	23,095	11,731	20,770	32,501	(59.3%)	(11.8%)
Motability cars	910	7,057	7,967	2,826	6,667	9,493	(67.8%)	+5.8%
Direct fleet cars	1,478	7,988	9,466	5,136	11,831	16,967	(71.2%)	(32.5%)
Agency fleet cars	752	2,913	3,665	1,484	4,220	5,704	(49.3%)	(31.0%)
Total fleet cars	2,230	10,901	13,131	6,620	16,051	22,671	(66.3%)	(32.1%)
Commercial vehicles	1,965	13,659	15,624	5,951	11,719	17,670	(67.0%)	+16.6%
Total New vehicles	9,876	49,941	59,817	27,128	55,207	82,335	(63.6%)	(9.5%)
Total vehicles	15,689	105,838	121,527	49,574	116,858	166,432	(68.4%)	(9.4%)

UK Market (SMMT)		
New retail cars	(60.5%)	(11.2%)
Motability cars	(67.9%)	4.8%
Fleet cars	(69.3%)	(17.5%)
Commercial vehicles	(65.7%)	3.3%

March to May Quarter

The Group incurred an adjusted loss before tax of £14.3m in the March to May quarter ("Q1"), a shortfall of £27.4m on the prior year period (Q1 2020: Profit before tax of £13.1m).

The closure of the retail network during this first period of lockdown saw total registrations of new cars in the UK in Q1 fall by 65.2%, representing a decline year-on-year of over half a million vehicles. During this period, the Group maintained marketing activity and continued to build a vehicle order bank via online and telephone orders. Nevertheless, the Group's like-for-like sales of new retail and Motability cars fell to 39.0% of prior year levels, fleet and commercial sales to 33.4% and used retail vehicles to 25.9% of prior year in Q1. Total Group gross profit from the sale of vehicles fell in Q1 by £31.3m compared to the same period in the prior year.

After 23 March 2020, the vast majority of the Group's aftersales operations remained open for key worker and essential service vehicles, on much reduced capacity at first and then progressively growing as lockdown eased. This resulted in the generation of total aftersales gross profits of £16.5m, which was £20.6m below the same quarter last year.

The Group took all available actions to mitigate this significant reduction in activity and profitability by reducing its costs during this period. Remuneration costs represent the largest component of the Group's operating expense and, whilst savings were made through the furloughing of colleagues, the Group paid colleagues in excess of the amounts received under the Job Retention Scheme. No colleague was paid below the national minimum wage and colleagues were not capped at the maximum grant receipt of £2,500 per month. This protected colleagues' earnings during this critical and anxious time (paying 80% of average earnings if above the £2,500 level). In addition, the Group's Senior Management who remained at work volunteered to take a 20% reduction in salary, and all members of the plc Board elected to take a 30% reduction in salary for the period from 1 April to the end of May. The executive directors also waived their entitlement to all bonuses for the financial year. In light of the performance and the significant progress made by the Group during the year, the Remuneration Committee have elected to award one-off bonuses to the executives. These bonuses will be paid 50% in cash and 50% in shares in the Company, with the shares required to be held for three years from the date of issue. Further details are provided in the Remuneration Committee Report. Gross pay was £4.5m in excess of the grant receipt in the quarter for those colleagues on furlough leave. The Group initially placed up to 80% of Group colleagues on furlough leave, though this declined over time as activity increased. The resultant receipt from the Government's Job Retention Grant of £17.7m significantly supported the Group in this first quarter as did the business rates relief of £1.5m in the same period.

Operating Review (continued)

March to May Quarter (continued)

Other costs were reduced significantly, particularly when showrooms were closed, to conserve cash. Group centralised supplier arrangements facilitated swift actions to be taken to remove costs. In addition, the Group received substantial support from third-party suppliers who reduced or suspended charges. The Group's Manufacturer partners were also excellent in taking steps to reduce franchise costs and to ensure retailers were able to conserve cash.

June to February Period

The remaining nine months of the financial year from 1 June 2020 to 28 February 2021 ("Period") generated an adjusted profit before tax of £38.9m, significantly more than the prior year profit of £9.9m in the same period. Strong demand in most channels, beneficial used car pricing movements, strong cost control and continued Government and Manufacturer support all contributed to a very strong trading environment for the Group, despite successive local and national lockdowns and restrictions. Enhancements to the Group's Click2Drive sales platform allowed the business to increasingly operate very effectively online in the sales area despite showroom closures.

The following departmental trends were seen in this Period:

Used retail vehicles

The used vehicle market in the UK has been remarkably resilient since 1 June 2020. Pent-up consumer demand was apparent, particularly from June to October. Despite further restrictions closing showrooms from November, sales rates were significantly in excess of those seen in the first lockdown, as both the Group and customers adapted to the situation.

The wholesale used vehicle market in the UK operates almost as a 'perfect market' as far as pricing is concerned. From June to October, tight supply of vehicles coincided with a period of robust consumer demand and consequently strong used vehicle pricing conditions were apparent. This strength in used vehicle values was in contrast to historic seasonal norms. As lockdowns again impacted on demand from November onwards, wholesale prices witnessed slightly higher than normal seasonal reductions. Margins overall, however, remained strong in the Period especially in relation to premium franchises.

Reduction in pressure to achieve new vehicle volume targets, particularly in premium franchises, has led to a reduction in nearly new vehicles in the used supply channel and this has also had a beneficial impact on margin retention from which the Group benefitted. In addition, a new stock management and pricing system was developed in-house and implemented in the Period ("Vertu Analytics") which has also aided pricing decisions and margin management.

The beneficial used car pricing environment went some way to offsetting the impact of a like-for-like 9.3% year-on-year reduction in Group used vehicle sales volumes in the Period. Gross profit per unit on a like-for-like basis increased to £1,467 from £1,197 (22.6%) with this uplift even more apparent in the Group's premium franchise dealerships. The growth in profitability contributed to Group used gross margin percentages for the Period improving from 8.3% to 9.6% on a like-for-like basis, despite a 5.4% increase in average selling prices. Overall, core Group gross profit generated from used vehicle sales in the Period increased by £8.3m compared to the prior year due to this enhanced margin retention.

New retail cars and Motability sales

Demand for new cars was weaker than used cars in the first national lockdown and was slower to rebuild momentum. UK retail registrations have declined year-on-year in every month of the Group's financial year except for just one month, July. Supply constraints and a reduced volume push by Manufacturers have been part of the reason for this reduction. Supply constraints in the Period were driven by post lockdown logistics dislocation, the impact of social distancing on production levels both in Manufacturers and their suppliers and also the challenges of switching the emissions mix of vehicle production to meet emissions regulations.

In the vast majority of franchises, volume targets were amended, reduced or removed by Manufacturers in response to showroom opening restrictions. The rise in consumer demand seen in used cars was replicated in new cars from July, with underlying consumer demand robust throughout the summer and this was witnessed in the building of strong order books for the September market. Overall, the Period saw UK new retail registrations fall 11.2%.

Operating Review (continued)

June to February Period (continued)

New retail cars and Motability sales (continued)

The Group's like-for-like new retail volumes declined by 11.8% broadly matching these market trends.

UK Motability sales operations closed completely during the first lockdown, re-opening for new applications from 1 July and remaining open during subsequent lockdowns. In the Period, UK registrations in this channel grew by 4.8%, reflective of pent-up consumer demand as deferred contracts were renewed. The Group's Motability volumes in the Period grew 5.8% on a like-for-like basis representing outperformance. The Group has the largest Motability vehicle fleet in the mainland of the UK.

Like-for-like gross profits from the sale of new retail and Motability vehicles fell £4.1m year on year in the Period. Reduced volumes of vehicles sold, together with significantly reduced quarterly manufacturer volume bonus income receipts in June (representing the period, April to June) were the primary reasons for this decline. The lockdown impact on vehicle sales volumes in April and May inevitably reduced volume bonus earnings recognised at the end of the calendar quarter in June. New vehicle gross profit per unit fell 2.2% on a like-for-like basis in the Period and the Group's new vehicle margin percentages declined from 7.7% to 7.0% on a like-for-like basis. Excluding the impact of the reduction in quarterly volume bonuses earned in the calendar quarter to June, underlying new retail margins were robust.

Fleet & Commercial vehicle sales

The UK car fleet market declined 17.5% in the Period. A lack of demand from the daily rental market, principally due to reductions in leisure and airport travel, along with reduced demand from corporate fleets, drove this decline. Like-for-like the Group delivered 10,901 fleet cars in the Period, representing a decline of 32.1%, which was behind the market. This reflects the mix of franchises held by the Group, with some Manufacturers moving away from this low margin channel to preserve profit and reflecting constrained supply.

The SMMT reported a 3.3% increase in registrations of commercial vehicles in the UK in the Period. This reflected strong demand for commercial vehicles, in particular, to satisfy increased demand for home deliveries as internet shopping increased. The Group's like-for-like sales volumes of new commercial vans was significantly ahead of these market trends, increasing by 16.6% in the Period. This was aided by very strong performance from the Group's Vansdirect business and the Group taking share from competitors seeking to reduce their working capital demands by reducing their exposure to fleet and commercial vehicle channels. As a consequence of strong demand for vans, both here in the UK and across Europe, van supply was tight which aided margin retention.

Like-for-like gross profit per unit in the Fleet and Commercial vehicle channel grew 14.2% from £671 to £766, reflecting both the change in mix away from the low margin daily rental channel and strong demand for commercial vehicles. Group like-for-like gross profit generation from fleet and commercial sales increased by £0.2m in the Period. As with new vehicles, lack of calendar quarter volume bonus receipts in June, driven by the reduction in volumes in the initial lockdown period held back performance.

Aftersales

From June to September pent-up demand from customers aided growth in the Group's vehicle servicing departments, driving increased like-for-like service revenues. Further national COVID-19 restrictions from November drove year-on-year reductions in the Group's like-for-like service revenues from November to February. Overall, in the Period, 0.6% growth in Group like-for-like service revenues was delivered with the impact of acquisitions driving Group total service revenues up 8.1%.

The like-for-like gross margin percentage on vehicle servicing rose to 78.5% in the Period (FY20: 77.5%). Higher average invoice values on retail work were achieved through the Group's effective vehicle health check processes. The introduction of individual timed appointments for customers, to ensure social distancing in dealerships, allowed more time for the Group's Service Advisors to better explain identified work to customers, aiding improved sales conversion. In addition, the Group saw a higher retail mix of work in workshops as warranty work remained muted compared to normal and this also aided margins and productive efficiency. Like-for-like gross profits generated from service activity increased by £1.5m in the Period as a result of these trends.

Operating Review (continued)

June to February Period (continued)

Aftersales (continued)

In contrast, like for like gross profits arising from the sale of parts and accident repair centres fell £2.5m in the Period. Like-for-like revenues fell 11.0% in the Period as fewer motoring journeys led to fewer accidents, reducing accident repair work and trade parts sales to accident repair centres.

The Group currently operates 10 accident repair centres, with dealership acquisitions made since 1 January 2020 representing half of this total. In recognition of this growing number of operations, the Group formed Vertu Accident Repair Limited ("VARC") in early 2021. VARC has a separate dedicated management team, with significant accident repair experience, in order to provide specialist focus to these businesses. All of the Group's accident repair centres will be transferred into VARC from the Group's franchised dealership divisions over the remainder of 2021. Growth in accident repair revenues is targeted, through the expansion of the number of manufacturer repair approvals held by each outlet and improved relationships with insurance work providers, as well as through further targeted acquisitions. Greater efficiencies will be sought by enhancing standard Group systems and processes across the accident repair centres and gaining from the impact of the dedicated new management team.

Parts revenues were also negatively impacted by the previously announced changes to parts distribution within the Vauxhall network. As a consequence of these changes, the Group exited trade parts in the franchise in early 2020 with an impact on revenues and profits but a gain in short term cash generation as working capital was liquidated. The Group previously indicated this would reduce annual profits by £0.9m.

Overall, like-for-like gross profits in aftersales declined £1.0m in the Period.

Current trading and outlook

In March 2021, the Group's sales showrooms remained closed as a result of the continued national lockdown. The Group's Macklin Motors sales showrooms in Scotland reopened on 5 April (subject to requiring an appointment to be made) with the rest of the Group's sales showrooms opening on 12 April without the need for an appointment. Despite the lockdown restrictions, the Group saw strong trading conditions in March with trading profits at record levels for the Group. The reopening of showrooms in April saw pent-up demand in sales again evident as customers sought to test drive vehicles for the first time in three months. The Group undertook significant marketing activity to gain market share. As a consequence, the Group saw March and April deliver a combined adjusted profit before tax of £19.2m which was in excess of the Group's business plan, prepared assuming no impact of COVID-19 on the business.

The Group's trading performance in March and April ("the post year end period") is summarised below:

March and April Performance	Year on Year % Change		
	Total	Like-for- Like	SMMT
Group Revenues	152.8%	134.8%	
Service Revenues ¹	107.7%	91.8%	
Volumes:			
Used Retail Vehicles	238.8%	215.9%	
New Retail Vehicles	59.1%	47.4%	41.8%
Motability Vehicles	129.0%	122.8%	110.2%
New Fleet Cars ²	103.9%	112.3%	89.4%
New Commercial Vehicles	167.5%	169.3%	157.4%

¹ Includes internal and external revenues

² Includes agency volumes

Group revenue rose substantially as expected since last year was significantly impacted by the first national lockdown which started on 23 March 2020. The Group has also undertaken considerable acquisition activity in the last 12 months and these acquired dealerships contributed over £50m to Group revenues in the post year end period.

Operating Review (continued)

Current trading and outlook (continued)

Group revenue rose substantially as expected since last year was significantly impacted by the first national lockdown which started on 23 March 2020. The Group has also undertaken considerable acquisition activity in the last 12 months and these acquired dealerships contributed over £50m to Group revenues in the post year end period.

Service activity saw strong levels of demand in March aided by substantial vehicle sales volumes, the Group's well developed customer contact strategy and high level of pre-paid service plans held by the Group's customers. In April 2020, service departments operated on a significantly reduced basis due to the impact of the lockdown in the prior year. Many service and MOTs were postponed (until after the lockdown eased in late May). Group vehicle sales levels in April 2020 were also very low due to the lockdown. As a result, in April 2021 the Group has seen some weakening of demand for retail annual servicing. This may very well reverse in future months as the seasonalisation of service work has been changed by lockdowns.

New and used retail vehicle demand and volumes have increased substantially year-on-year in the Period as expected. Whilst sales under lockdown conditions in March 2021 were considerably higher than in the first lockdown (at around 60% and 97% of normalised levels for new retail and used volumes respectively), there was still an element of pent-up demand exhibited when showrooms reopened in April 2021. This pent-up demand was primarily due to customers holding off on purchases until test drives and physical visits to dealerships could be resumed.

The new car market in the UK is as much driven by supply factors as those impacting demand. There are increasing signs that new car supply will be tight in the coming months reflecting the continued impact of COVID-19 on manufacturing both in the assembly plants and the parts supplier base. Semi-conductor shortages are also likely to limit new vehicle supply in the months ahead as several plant closures and curtailments of production have been announced across the globe. Manufacturers are also having to balance the emission levels of their sales, which may impact production and availability. In contrast, the renewed strength of Sterling against the Euro and Yen makes the UK a more profitable market for Manufacturers to export cars into and this tends to increase supply levels. Overall, the Board believes constrained new vehicle supply is a key uncertainty in the near term which may impact the business.

The used car market remains very robust from a demand perspective. Coming out of the lockdown in April 2021, supply of used cars in the UK was much tighter than normal for the time of year. In addition, new car supply constraints are also likely to contribute to this tightness in used car markets continuing over the summer and perhaps beyond. Used car values are therefore expected to remain robust for the remainder of H1 at least.

The fleet car market recovered well in March and April from the lows of last year. Fleets that had postponed vehicle changes took advantage of the strong used car market for disposal of deflected vehicles, contributing to this recovery. The Group took share with like-for-like fleet car volumes increasing 112.3% compared to a 89.4% growth in SMMT registrations in the post year end period.

The Group's new commercial vehicle sales were up 169.3% in volume terms on a like-for-like basis, with the SMMT reporting a growth of 157.4%. The SMMT reported that the UK new van market in April was the highest on record, reflecting strong demand driven principally by the rise of courier services and delivery of online purchases. Whilst the Group took share in this buoyant market, demand exceeded supply with new van order lead times very much extended as supply remains tight. The global semi-conductor shortage will not help this supply situation in the short-term.

The Group continued to benefit from the extended business rates holiday on showrooms in March and April (impact of £1.8m) and the cost savings from the cost reduction programme undertaken in 2020. The furlough scheme was utilised on a very small scale in March and early April with receipts of £0.4m. It is envisaged that in the absence of further lockdowns and restrictions related to COVID-19, the Group will make no further use of the Job Retention Scheme.

Operating Review (continued)

Current trading and outlook (continued)

The Group's BMW and MINI dealerships acquired in December 2020 saw a strong performance in March and April, delivering an adjusted profit before tax over the two months of £0.5m. This is ahead of business plan for the year to date. The Board is pleased with the progress of this new Division and the success of the integration process.

The Board remains confident in the prospects for the Group. With its strong asset base, balance sheet, scale, Manufacturer relationships, well invested systems including the Click2Drive sales technology platform and experienced leadership team, the Board believes that the Group is strategically very well placed to capitalise on the consequent changes and opportunities in the UK motor retail sector.

The promising trading result in the post year end period has been aided by strong consumer demand. Supply of new vehicles in the coming months is a concern, however, reduced supply should result in robust vehicle margins. The Board expect the Group will deliver an adjusted profit before tax for the year ending 28 February 2022 in the range of £24.0m to £28.0m.

Robert Forrester, CEO

Financial Review

The Group's income statement for the Year is summarised below, including analysis of the initial quarter, March to May, which included the first national COVID-19 lockdown and the remainder of the financial year's results:

	Mar to May FY21 £'m	June to Feb FY21 £'m	FY21 £'m	Mar to May FY20 £'m	June to Feb FY20 £'m	FY20 £'m	June to Feb % Var
Revenue	332.3	2,215.4	2,547.7	926.9	2,137.6	3,064.5	3.6%
Gross Profit	39.5	261.5	301.0	91.4	242.7	334.1	7.7%
Operating Expenses (gross)	(68.9)	(226.1)	(295.0)	(76.2)	(225.7)	(301.9)	(0.2%)
Job Retention Scheme Grant	17.7	10.1	27.8				
Operating Expenses (net)	(51.2)	(216.0)	(267.2)	(76.2)	(225.7)	(301.9)	4.2%
Adjusted Operating (Loss) Profit	(11.7)	45.5	33.8	15.2	17.0	32.2	167.6%
Net Finance Charges	(2.6)	(6.6)	(9.2)	(2.1)	(7.1)	(9.2)	7.0%
Adjusted (Loss) Profit Before Tax	(14.3)	38.9	24.6	13.1	9.9	23.0	292.9%
Non-Underlying Items ¹			(2.2)			(15.7)	
Profit Before Tax			22.4			7.3	
Taxation			(6.1)			(4.3)	
Profit After Tax			16.3			3.0	

¹Non-underlying items represent share-based payments, amortisation of intangible assets and non-cash impairment of assets

Operating Expenses

In the three months to 31 May 2020 and in the light of the impact of the national lockdown, the Group took decisive action to minimise costs as outlined in the previous section. As a consequence of these actions, total Group operating expenses, excluding the Job Retention Grant receipt, were 9.6% lower than the same quarter in the prior year. This represented a saving of £10m in the Core Group, with the total inclusive of the impact of acquired businesses. Relief on business rates in respect of the Group's showrooms saved £1.5m of this total. Savings were delivered on almost every other cost line in the business.

The focus on cost reduction continued throughout the remainder of the financial year on reopening from 1 June 2020 to 28 February 2021 ('Period'). The application of technological developments to improve efficiency, allowed the Group to remove costs from some key areas. This restructuring programme was completed in July and as previously announced, this generated annualised headcount cost savings of approximately £10m. Total restructuring costs for the financial year of £1.1m have been included in underlying expenses. Group operating expenses in the Period, excluding furlough grant receipts, were £0.4m higher than the prior year period as a result of dealership acquisitions. However, excluding the impact of acquisitions and receipts from the Job Retention Grant, operating expense savings of £16m were delivered in the Core Group in the Period with business rates relief saving £7.2m of this total.

The Group disposed of a surplus property asset in the Period generating cash proceeds of £0.8m and a profit on disposal, included within the underlying result of £0.4m.

Government Support

Given the forced closure of the business due to Government lockdown regulations, the Group received Government assistance during the Year in two key areas. For the full financial year, furlough grant receipts of £27.8m and business rates relief savings of £8.7m arose. This assistance offset substantial losses particularly in the first lockdown. In April and May 2020, for example, the Group reported a pre-tax loss of £20.1m after Government assistance.

The Group does not intend to repay this Government support which arose due to the forced closure of its operations.

Financial Review (continued)

Net Finance Charges

Net finance charges were static year on year, as analysed below:

	FY21 £'m	FY20 £'m	Variance £'m
Bank interest payable	1.8	1.2	0.6
Mortgage interest payable	0.1	-	0.1
Vehicle stocking interest expense			
- New vehicle Manufacturer stocking interest	3.6	3.9	(0.3)
- Used vehicle stock funding interest	0.3	0.6	(0.3)
Interest on lease liabilities	3.6	3.6	-
Interest income	(0.2)	(0.1)	(0.1)
Net finance charges	9.2	9.2	-

At the start of the first national lockdown in March 2020, the Group took action to protect liquidity by drawing an additional £10m on its revolving credit facility. The increase in interest on bank borrowings of £0.6m relates to this increase in drawings, together with a 0.8% increase in the margin charged on bank borrowings effective from 1 June 2020 to 1 December 2020. This increase followed a waiver of covenants obtained in respect of the first half of the financial year. The margin charged on this borrowing reverted to previous levels on 1 December 2020.

The Group partly funded the purchase of its BMW/MINI acquisition in December 2020 through taking a new £12.76m 20-year mortgage on the freehold and long leasehold properties acquired. The mortgage is repayable in 240 equal instalments over the 20-year term and carries a fixed annual interest rate of 2.9% for the first five years.

The Group saw a year-on-year reduction in interest charged by Manufacturers on funded new vehicle inventory. As a consequence of the timing of the first nationwide lockdown, being normally the most significant month for new vehicle sales in the calendar year, interest bearing new vehicle stock levels in the Group were on average £80m higher in the first quarter compared to the previous year. On the reopening from June onwards, the Group was successful in significantly reducing the new vehicle stock pipeline and hence interest charged. New vehicle supply constraints also had an impact reducing new vehicle pipeline stocks below last year's levels. As a consequence, over the year as a whole, consignment stock interest reduced by £0.3m.

The Group also accesses used vehicle stocking loans to fund working capital. As a result of the strong cash position of the Group throughout much of the financial year, amounts utilised on this £45m facility were reduced to £5.9m at 28 February 2021, representing 4.9% of used vehicle inventory (29 February 2020: £25.5m, 21.0% of inventory).

Finally, additional working capital requirements are met by a committed money market loan ('CMML') facility. This facility varies over a financial year with peak availability in the months following calendar quarter ends, namely April, July, October and January. The Group has not utilised its peak CMML facility since early 2019 and consequently has agreed to reduce the peak facility from £68m to £48m to better reflect utilisation patterns and to minimise recurring costs. Margins on this facility were increased by 25bps on renewal in April 2021.

Pension Costs

The accounting surplus on the Group's closed defined benefit pension scheme was £6.2m at 28 February 2021 (29 February 2020: £8.9m). During the Year, there have been changes in the financial and demographic assumptions underlying the calculation of the liabilities. In particular, the discount rate, which is linked to movements in corporate bond yields, has increased slightly as has the expectation of higher future inflation. The effect of these changes in assumptions resulted in a decrease in liabilities of £0.4m. Scheme assets reduced in value by £3.0m over the financial year. In total, an actuarial loss of £2.6m has been recognised in the Statement of Comprehensive Income in the Year.

Financial Review (continued)

Tax Payments

In the July 2020 Finance Act, the previously announced reduction in the rate of corporation tax to 17% was removed. This resulted in the Group's deferred tax obligations being measured at the higher rate of 19% in the financial year (2020: 17%). On 3 March 2021, the Chancellor announced that the headline UK corporation tax rate will rise to 25% from 1 April 2023. As this increase had not been enacted by the balance sheet date, the further revaluation of the Group's deferred tax obligations from 19% to 25% is likely to be applied in the financial year ending 28 February 2022. This change is expected to increase the Group's non-underlying tax charge by £2.9m for FY22.

The Group's underlying effective rate of tax for the year increased to 21.25% (2020: 19.65%). The overall effective tax rate, impacted by the revaluation of deferred tax obligations, was 27.17% (2020: 59.18%). The Group continues to be classified as "low risk" by HMRC and takes a pro-active approach to minimising tax liabilities whilst ensuring it pays the appropriate level of tax to the UK Government.

Shareholder Returns

The Group commenced operations in March 2007 and in November 2021 will have been incorporated for 15 years. In that time, the Group has utilised equity markets to create a Top 5 UK automotive retailer which is also the 9th largest in Europe by revenues. The Group has delivered profitability each year since incorporation, has an excellent asset base with £181.6m of tangible net assets and normalised annual revenues of over £3.7bn. Crucially, returns generated to date are in excess of the weighted average cost of capital.

The Board remains cognisant of the importance of dividends to total shareholder returns. Mindful of the substantial amounts of Government support received and the need to protect the Group's liquidity in the first quarter, the Board did not declare a final dividend for the year ended 29 February 2020, nor propose any dividend for the financial year ended 28 February 2021. The Board anticipates that the payment of dividends will resume in respect of the financial year to February 2022, dependent on the financial performance of the Group.

Another important element of shareholder return can be share buyback programmes, particularly in an environment of share price weakness compared to the Board's view of the intrinsic value of the business. The Board will evaluate the benefits of such a programme in 2021.

Capital Expenditure

Despite the curtailment of capital expenditure to preserve liquidity during the Year, the Group completed some key projects in the year ended 28 February 2021. These included the completion of the redevelopment of the Bradford and Nelson Land Rover showrooms. These developments deliver operations with greater capacity for sales and service and will underpin the Group's future profitability and cash generation.

In terms of large-scale projects for the coming financial year, the Group will construct a new build dealership in Edinburgh so that the current multi-franchise operation in the city in short leasehold premises can be relocated. The Group already owns the land on which this new dealership will be built having acquired it a number of years ago. The Group also plans to execute on its multi-franchising strategy in a number of existing locations which will require capital expenditure investment albeit it is aided by support from Manufacturers. Capital expenditure for FY22 is currently expected to be approximately £18.6m.

Managing Working Capital

The Group has generated cash from operating activities of £74.9m (2020: £19.5m) aided by a substantial level of cash generation from a reduction in working capital of £29.6m. This was due to reduced sales activity levels which have led to lower levels of receivables and inventory at 28 February 2021 compared to last year.

The Group has significant levels of working capital in the form of inventory, receivables and payables. These are ordinarily subject to significant, yet predictable, seasonal fluctuations which coincide with plate change months and quarterly Manufacturer new car campaigns.

New vehicle funded inventory reduced by £49.1m as high levels of new inventory seen at the end of the last financial year significantly unwound. A related £46.9m decrease in trade creditors was also seen. Reduced levels of supply of new vehicles along with reduced sales activity, particular in fleet car sales, meant that tactical registration activity was much reduced

Financial Review (continued)

Managing Working Capital (continued)

compared to the prior year. Fully paid new vehicle stock was consequently lower than seen at 29 February 2020, with a decline of £2.9m.

Trade receivables also fell by £12.7m year-on-year reflecting reduced levels of sale activity as a result of the lockdown in the run up to the year end. Used vehicle inventory fell by £10.3m as the Group sought to control its stock levels during lockdown, in the context of lower sales levels and moderate month-on-month market value reductions in the run up to the year end.

Trade receivables also fell by £12.7m year on year reflecting reduced levels of sale activity as a result of the January to April 2021 lockdown. Used vehicle inventory fell by £10.3m as the Group sought to control its stock levels during lockdown, reflecting lower sales level and moderate month on month market value reductions.

Financing and capital structure

The Group has a balance sheet with shareholders' funds of £275.9m (2020: £263.4m) representing net assets per share of 76.2p (2020: 71.7p). The net asset value is underpinned by a freehold and long leasehold portfolio of £229.2m (2020: £211.8m) and net debt (excluding lease liabilities) of £4.5m at 28 February 2021. The Group's conservative financing and capital structure results in a strong tangible net assets position of £181.6m at 28 February 2021.

The Group has a committed acquisition debt facility of £62m, maturing in February 2024, with the potential to add a further £15m, which is currently uncommitted. £54m of this committed facility was drawn as at 28 February 2021. As a consequence of the losses incurred in Q1, waivers were obtained in respect of the covenants in place in respect of this facility for the test periods ended 31 May and 31 August 2020. Strong cash generation means that the Group is anticipated to be able to operate comfortably within all covenants for the foreseeable future.

The Group's Adjusted net cash position of £1.4m is stated excluding £5.9m of used car stocking loans (2020: £25.5m). These used car stocking loans with third party banks are subject to interest and are secured on the related used vehicle inventories. The Group has a £45m facility under these arrangements but uses these facilities selectively, and this has acted to the benefit of the Group in the Period, as significant cash was able to be generated from reducing used vehicle stock levels, aiding liquidity. This resulted in the repayment of significant amounts of used car stocking loans given the Group's strong cash position. The Group had £121.2m of used vehicle inventory at 28 February 2021 (2020: £121.3m) and the low level of used car stocking loan utilisation is a major structural difference in financing compared to many industry peers.

Karen Anderson, CFO

Sustainability

The Group has long recognised that whilst the primary objective for the business is to generate long-term sustainable profit and cash flows, this will only be achieved by serving a need society has and to meet this by adding value to the communities it serves. The Mission of the Group is 'to provide an outstanding customer motoring experience through honesty and trust'. The Group's values, which are at the heart of its culture, show that the Group always aims to do the right thing by our colleagues, and wider stakeholders. Recent global events have re-enforced the importance of local communities, the value of collaboration and the power of working together. All of these will be vital in our collective ability to tackle some of the complex national, social, environmental and economic problems that we face. The Group will play its part to secure its future and the future of the society it serves.

The Group has a track record of making a positive contribution to its colleagues and to the communities we operate in, as well a commitment to minimise cost and maximise efficiency to ensure resources are not wasted. The Group is building on this by launching in April 2021 its 'Driving Sustainability' strategy, based around three strategic sustainability goals:

1. Work with our Manufacturer partners to provide increasingly sustainable choices for customers
2. Reduce the environmental impact of our business
3. Care for our colleagues and support our communities

These sustainability goals have been mapped to the United Nations ('UN') Sustainable Development Goals ('SDG') to show how we are contributing. We have ambitions to improve and therefore targets to achieve this are also shown against each of our sustainability goals.

Sustainability Goals

 Work with our Manufacturer partners to provide increasingly sustainable choices for all customers	Goals Increase the share of the Group's sales of alternatively fuelled vehicles by a minimum 30% each year to 2030 Maintain our position as the UK's largest supplier of vehicles to the Motability fleet	Link to SDG 3 GOOD HEALTH AND WELL-BEING 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES 12 RESPONSIBLE CONSUMPTION AND PRODUCTION 13 CLIMATE ACTION 17 PARTNERSHIPS FOR THE GOALS
 Reduce the environmental footprint of our business	Goals Deliver an annual 10% like-for-like reduction in the energy the Group draws from the national grid 70% of all dry waste to be recycled by 2025 25% of the corporate fleet to be alternatively powered by 2025	Link to SDG 6 CLEAN WATER AND SANITATION 7 AFFORDABLE AND CLEAN ENERGY 12 RESPONSIBLE CONSUMPTION AND PRODUCTION
 Care for our colleagues and support our communities	Goals At least 90% of Colleagues to agree that the Group is a great place to work Continue to support causes local to our dealership network applying a central support budget of £150,000 per annum	Link to SDG 3 GOOD HEALTH AND WELL-BEING 4 QUALITY EDUCATION 5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH 10 REDUCED INEQUALITIES

Sustainability

Environmental Footprint



21,644,543 kWh electricity used
25,059,458 kWh gas used



168,152 m3 water used



60% of dry waste recycled



57% reduction in paper used
compared to FY20

Responsible Sourcing

All of the Group's business locations are situated within the UK and operate in strict compliance with all applicable labour relations laws. We have no presence, either directly or via sub-contractors, in any areas which present a material risk of the exploitation of men, women or children in the workplace. We work with vehicle manufacturers and other suppliers who manage their supply chains in a responsible way. The Group's modern slavery statement is published on the Group's website, at <https://investors.vertumotors.com/>.

Environmental Management

The Group's strategy on environmental matters is to ensure legal and regulatory compliance as well as seeking to manage costs and usage through effective resource allocation. Half Hourly energy usage data and purchasing monthly usage data is monitored to highlight areas of potential wastage for attention, as well as providing a firm benchmark for energy and usage reduction activities.

Sustainability

Community

As the Group has expanded, so has the scope of its involvement in the community as part of our wider corporate and social responsibility strategy and newly launched Group sustainability goals.

The projects chosen for support reflect the diversity and depth within the business, and also the desire of colleagues to be an active part of the communities served by their dealership. During the year to 28 February 2021 the Group's community activities have included:

Great Northern Raffle:

The Group supported the Great Northern Raffle, which raised funds for a range of North East charities, who had seen fundraising depleted as a consequence of the pandemic. The Group donated a car to be raffled and this helped to raise £45,000.

St. Oswald's Hospice:

Another charity that the Group supported through the donation of a car was St Oswald's Hospice, who provide outstanding, specialist and expert care to adults and children with life-limiting conditions. This year, the donation helped to raise £54,000, enough to cover the salary of a nurse and an auxiliary nurse for a full year.

Vertu Motors Arena naming rights:

Vertu Motors is proud to support the Newcastle Eagles Foundation, a charity very much at the heart of their community. Vertu Motors' naming rights sponsorship of the Eagles Arena, in Newcastle upon Tyne, helps the Foundation to continue delivering vital services to the local community with the venue acting as both a sports arena and community centre, currently used as a Covid vaccination centre.

Haircuts for Heroes:

The Group's colleagues joined together during the first national lockdown to raise more than £20,000 for NHS Charities Together, by donating the cost of a haircut.

Back to Eden Project:

The Group has long been a supporter of the New Testament God's Church, based in the Birmingham area. Recently the Group's support has extended to include sponsorship of a new community project which has secured land for use as a community allotment. Anyone from the local community can come along to meet, learn about growing fruit and vegetables and take produce home. The allotment will also be used by a local primary school.

Other:

The Group's Dealerships have also been busy supporting their local communities including sponsorship of grassroots sport, donations and fundraising for food banks and community groups. Examples include Vertu Toyota Chesterfield who were main sponsors of the Sparkle Night Walk in aid of local charity, Ashgate Hospice Care. Farnell Land Rover Bolton donated the proceeds from their Christmas Jumper fundraiser to Urban Outreach, a charity providing food for households in crisis. Bristol Street Hyundai in Bristol, sponsored Brislington Ladies FC and junior football club Heanor Junior Titans have received sponsorship support from Bristol Street Nissan Ilkeston. These are just a few examples of the work by our dealerships in providing support to their communities.

Health and Safety

A consistent Group-wide approach is taken with regards to Health and Safety and environmental matters. A Health and Safety Committee meets monthly to consider all aspects of our Health and Safety performance, including reviewing any incidents, and considering how to spread best practice across the Group. All line managers receive comprehensive, externally provided training to ensure they understand relevant legislation and the scope of their responsibility in this critical area. There are clear lines of responsibility which are communicated to all colleagues. The General Manager is the main responsible individual at each dealership for all Health and Safety matters, supported by a dealership Health and Safety Co-ordinator. A Group Health and Safety Manager is responsible for monitoring compliance with Health and Safety systems and providing support and advice to the General Managers, as well as continually assessing the quality of our systems, outputs and recommending improvements. The Health and Safety Committee also reports monthly to the Board, and key findings are communicated regularly to Senior and General Managers to retain a focus on Health and Safety matters.

As part of the Group's planning around the re-opening of retail premises following the COVID-19 lockdown, a sub-Committee of the CEO Committee was formed to prepare a cohesive approach to health and safety. This Committee prepared a COVID-19 Safety Policy, all colleagues returning to work from furlough leave must confirm that they have read this policy and watched the accompanying training video. Colleague consultation around the safety measures introduced by this Policy was completed prior to 1 June 2020. The Committee prepares risk assessments reflecting latest guidelines. These risk assessments are then completed each month by all dealership General Managers for the sites under their responsibility from 22 May. Appropriate PPE has been obtained and social distancing measures will be applied in all dealerships.

Our Health and Safety Dashboard, which focuses on key risk areas within the Dealerships, is a cornerstone of our processes with consistent reporting on any shortfalls being provided to the Board. This has allowed us to quickly identify any locations where the required level of concentration on this critical area is falling short and allows us to generate corrective actions.

In order to manage the Health and Safety risk involved in driving, telematics devices are fitted into the cars of the Group's younger drivers, as they are our largest risk population, and this system gives us real time reporting on driver behaviour.

During the year, the Group's systems for monitoring compliance with Health and Safety were subject to external audit. In addition, Group locations also received an independent external audit carried out without prior warning to assess adherence to our Health and Safety Operating System. The results of these audits have been encouraging with most Dealerships scoring very highly, and only a small number of failed audits which resulted in immediate corrective action. The audit output also provides a list of improvements to be addressed at each dealership and attending to these will again raise the bar on delivering a safe environment for Customers and Colleagues.

Colleagues

Engaging our Colleagues

The development and motivation of colleagues is one of the Group's core strategic objectives. The Group seeks to fulfil the career aspirations and potential of all colleagues. The Board seeks to create an environment in which every colleague feels valued in everything that they do and takes pride in their contribution to the Group. The enthusiasm and dedication of colleagues is a vital factor in the Group's success.

The Group is committed to providing colleagues with information on matters of interest to them on a regular basis. Individual achievement is recognised publicly and privately to reinforce behaviours in line with the Group's Values and Mission Statement. 'Working together' is vital when developing a successful team and at the very heart of this is good communication. The Group utilises many formal and informal channels to achieve this. For example, the CEO and CFO produce regular vlogs and blogs and regular news updates are emailed to colleagues, posted onto the Group wide intranet site or included in monthly Team Briefs. Additionally, the Group produces online newsletters, which feature news stories from colleagues working across the Group's network of dealerships. Each General Manager undertakes a monthly Team Brief, updating colleagues in small groups on relevant issues impacting the Group, their operating division and the dealership. These meetings seek to reinforce the Group's values and contribute to the creation of a Group culture.

The Group operates several award schemes covering all colleagues. These schemes are intended to recognise and reward talented and committed individuals throughout the Group. One such scheme is the CEO Management Awards, which are announced each December and recognise a number of managers for their outstanding performance. The Group also operates 'The Masters' Awards', through which colleagues throughout the Group can nominate their co-workers for awards linked to demonstration of the Group's Values. These awards reinforce the Group's culture through the recognition of those behaviours which exemplify the Values. The Masters Awards also have a number of categories that cover individual performance based on achievement of specific performance targets. This facilitates engagement through competition, as the associated league tables of performance are communicated throughout the Group. The recipients range from sales executives, service advisors and technicians to drivers, cleaners, valeters and receptionists, with a category to cover every dealership-based colleague.

The Group also recognises colleagues with long service, with specific recognition for those reaching 10 and 20 years within the Group. This recognition programme includes celebratory social events, which bring together long-serving colleagues and the Group's senior management team as a thank you for their commitment. These colleague award programmes are designed to reward and reinforce behaviours underpinning both Group financial performance and other strategic objectives including the delivery of an outstanding customer experience. The Group seeks colleague feedback through an annual colleague satisfaction survey. Overall colleague engagement in this year's survey increased to 84% in October 2020 (2019 81%). 87% of responding colleagues would recommend the Group to someone they know as a great place to work (2019: 84%).

Colleagues (continued)

In order to develop a culture that is positive and contributes to the Group performance, seven core values are used extensively in the business to signpost desired behaviours. These are as follows:

Values

- **Passion**
We are proud of our Company and dedicated to its purpose. We are enthusiastic, enjoy challenges and are eager for success.
- **Respect**
We are friendly and courteous in all our relationships with colleagues, customers and suppliers.
- **Professionalism**
We are reliable and consistent and we excel in the standards and presentation of our people, products and premises.
- **Integrity**
We are trustworthy and honest in all that we say and do and take responsibility for our own actions.
- **Recognition**
We appreciate the endeavours of our colleagues. We praise their achievements and enjoy celebrating their success.
- **Opportunity**
We have a vision of what can be achieved and provide colleagues with personal development, supportive training and exciting career progression.
- **Commitment**
We are all determined to achieve total customer satisfaction by providing a service built on trust.

Promoting Diversity and Inclusion

The Group has always focused on the recruitment and promotion of colleagues who embody the five unteachable attributes, namely, Character, Attitude, Energy, Drive and Talent. All appointments are made solely based on a person's suitability for a particular post and without reference to gender, sexual orientation, age, ethnic origin, religion or disability (except when there is a genuine occupational requirement). The principle of equality also applies to career development opportunities and training. That said, the industry in which we operate has traditionally attracted more male applicants. Colleagues are comprised 23% female and 77% male currently and therefore there is more to do in achieving a greater balance in this area.

The Group is a member of the Automotive 30% Club, which is focused on achieving a better gender balance within the automotive industry, and with the aim of filling at least 30% of key leadership positions in the member organisations with women by 2030 through a "30 by 30" strategy.

The Group's aim is to attract and retain the best people in the automotive retail sector while observing best practice in employment policies and procedures through a commitment to:

- Offering equal opportunities in recruitment and promotion;
- The continuous development of all colleagues;
- Encouraging internal promotion;
- *Using progressive, consistent and fair selection methods;*
- Offering family friendly policies and ensuring colleagues are treated with respect and dignity in an environment where no form of intimidation or harassment is tolerated.

Employment career progression and development of disabled people is considered on merit with regard only to the ability of the applicant to carry out the function required. Arrangements to enable disabled people to carry out the function required will be made if it is reasonable to do so. A colleague becoming disabled would, where appropriate, be offered retraining and support to continue in their role where possible.

Colleagues (continued)

Number of Group colleagues by gender:

	At 28 February 2021			At 29 February 2020		
	Female	Male	Total	Female	Male	Total
Directors	2	4	6	2	4	6
Group Senior Managers	5	55	60	6	47	53
All Colleagues	1,350	4,401	5,751	1,474	4,470	5,944

Learning and Development

The Group invests in the personal development of every colleague.

The Group's 'Active Training' team provide programmes ranging from sales process training to management and leadership development as well as compliance and technical training. All colleagues also have access to an e-learning platform containing a wide range of relevant modules. Certain e-learning modules are set as required learning whilst others can be accessed to widen a colleague's understanding beyond what would be expected for their role. In response to restrictions imposed in respect of COVID-19, training courses were delivered remotely by the Group's training team to ensure that the Group's colleagues continued to be developed throughout.

A significant Leadership development programme, in partnership with Dale Carnegie, is also in operation. Selection for development through the Group's leadership programmes is made through the application of a talent strategy model, which links both current performance and an individual colleagues potential. 10% of the Groups management will progress through these programmes during FY22.

The Group also operates a substantial apprenticeship programme in partnership with the Group's Manufacturer partners, with over 220 apprentices currently engaged in training. Additionally, a Degree Apprenticeship programme in partnership with Northumbria University is used to attract talented individuals who may otherwise go to University outside the sector to join the Group. The Group expects to have between 20-30 of these Degree Apprentices in training during FY22.

The Group also offers access to an 'Evolution' programme which provides a development path for promising colleagues in the areas of sales, aftersales and finance to line management roles.

Whistleblowing

The Group has a long-established whistleblowing policy and process, where all colleagues may, in confidence, report any concerns where the interests of the Group or others are at risk. Colleagues are encouraged in this first instance to talk to their line manager, member of the HR team or a higher level of management. Where the circumstances mean this is not possible, or is inappropriate, colleagues can access and independent, external whistleblowing helpline.

All reports received via this helpline are treated in the strictest confidence and are typically investigated by the Group's employee relations team. The output of these investigations is reviewed by the Group HR Director, General Counsel and other senior management colleagues as appropriate, dependent upon the nature of the complaint.

Anti-fraud, Bribery and Corruption

The Group has an anti-corruption and bribery policy which sets out the standards that are expected of colleagues and the procedures in place to minimise the opportunity for corrupt behaviours. The policy applies to all colleagues and includes guidance on the giving, receiving, and recording of business gifts and hospitality.

A fraud register is maintained by the Group, any items recorded on this register are investigated by the Group Head of Risk and are reported to the Audit Committee.

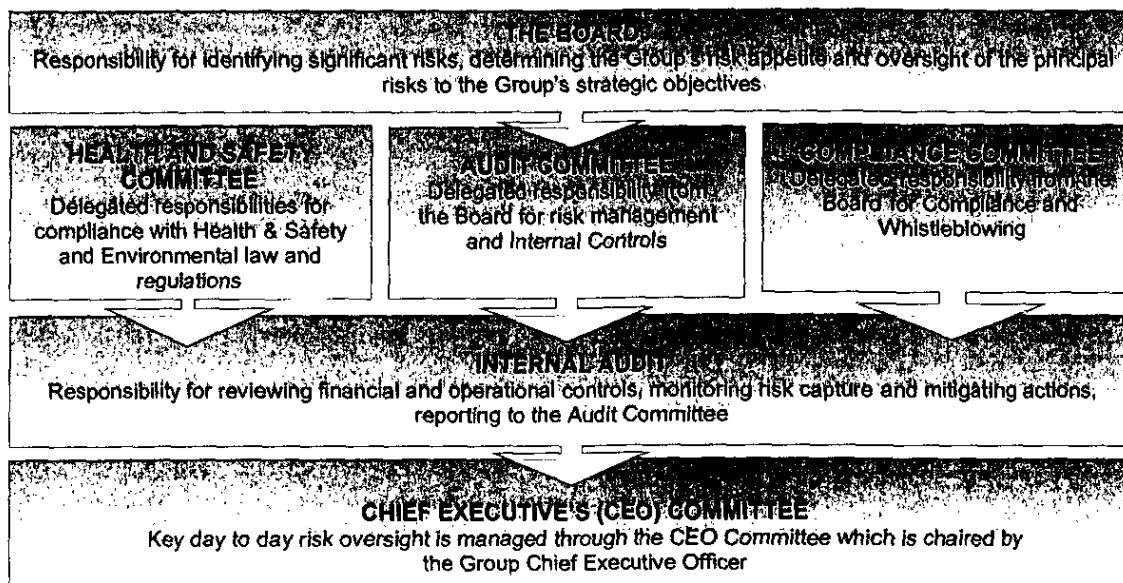
Colleagues (continued)

Preventing Modern Slavery

Modern slavery is a crime and a violation of fundamental human rights. It takes various forms, such as slavery, servitude, forced and compulsory labour and human trafficking, all of which have in common the deprivation of a person's liberty by another in order to exploit them for personal or commercial gain. The Group applies a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all our business dealings and relationships and to implement and enforce effective systems and controls to ensure modern slavery is not taking place anywhere in our own business or in any of our supply chains.

Risk Management

Process



Financial and Business Reporting

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. A statement of the Directors' responsibilities for preparing the Annual Report and financial statements is set out on page 70. The statement by the auditors about their reporting responsibilities is given on pages 77 and 78.

Risk Management and Internal Controls

The Board is responsible for establishing and maintaining adequate internal controls over regular financial reporting for the Group, including the consolidation process. There is a comprehensive system of internal controls in place, including the Annual Business Plan ("Plan") which is reviewed and approved by the Board. Monthly actual results are reviewed by management against both the Plan and prior year results. All data to be consolidated in the Group's financial statements is reviewed thoroughly by management to ensure that it complies with relevant accounting policies and the financial reporting presents a true and fair reflection of the financial performance and position of the Group.

The Board has overall responsibility for risk management and is advised of key risks facing the Group on a regular basis with a formal review of the most significant risks annually, or more frequently if required. The Board takes a proactive approach to the management of all forms of risk, and views risk management as a vital constituent of its commitment to provide value protection and growth for its various stakeholders. The internal controls system is designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and can, therefore, only provide reasonable, rather than absolute, assurance against material misstatement or loss. The Board regularly reviews the risks to which the Group is exposed, as well as the operation and effectiveness of the system of internal controls.

The day-to-day responsibility for compliance and certain regulatory activities has been delegated to the Compliance Committee, chaired by the COO and made up of members of senior management including the CFO and Company Secretary. This includes the Group's compliance with regulation under the requirements of the Financial Conduct Authority (FCA), the Advertising Standards Authority, the Trading Standards Institute, the Data Protection Act and all other applicable regulations.

Oversight of health and safety and environmental regulatory risk is delegated to the Health and Safety Committee, made up of members of senior management.

Risk Management (continued)

Risk Management and Internal Controls (continued)

The Board's approach involves identification of material risks that may restrict the Group's ability to meet its objectives, the assessment of these risks in terms of impact, likelihood and control effectiveness, and the establishment of risk management strategies. For some key risks, where it is considered necessary, specialist advice is sought from external agencies and professional advisers.

Principal Risks and Uncertainties

There are certain risk factors which could result in the actual results of the Group differing materially from expected results. These factors, as set out below, are not an exhaustive list of all the potential risks and uncertainties that could adversely impact the Group's results:

STRATEGIC		
Description of risk	Impact	Mitigation
1 Failure to deliver on the strategic goal of the Group to acquire and consolidate UK motor retail businesses	Stalled growth of the Group and associated shareholder returns Reputation risk	- Maintain strong relationships with manufacturer partners to ensure that the Group remains a valued and relevant candidate for any potential franchised network development opportunities - Thorough reviews of acquisition opportunities to ensure Group investment hurdles are met - Established process for swift integration of acquired businesses into the Group
2 Failure to meet competitive challenges to our business model or sector	Loss of customers to competitors Reduced profitability	- The Group's scale, technological capability and diversification creates the ability to capitalise on market opportunities - Omni-channel development / digital progress - Customer experience focus of the Group attracts customer loyalty - Ongoing monitoring to identify emerging competitive threats and act on these quickly
3 Advances in vehicle technology provide customers with mobility solutions which bypass the dealer network	Business model becomes obsolete	- Maintain strong relationships with manufacturer partners to work closely with them as the future shape of the sector evolves - Establish sufficient scale with manufacturer partners to ensure the Group is a key part of their route to market - Provide manufacturer partners with excellent retail facilities and customers with excellent services, to ensure Group is successful in the event of significant industry consolidation - Building on the Group's established on-line sales capability
BRAND PARTNERS AND REPUTATION		
Description of risk	Impact	Mitigation
4 Inability to maintain current high quality relationships with manufacturer partners	Impact on our ability to retain existing contracts and to take on new opportunities for growth	- Group Vision and Values set the tone from the top to deliver strong service to our Group stakeholders - Constant focus on improvement in performance and effective communication with our manufacturer partners to ensure that our objectives are closely matched to theirs

Risk Management (continued)

Principal Risks and Uncertainties (continued)

ECONOMIC, POLITICAL AND ENVIRONMENTAL

Description of risk	Impact	Mitigation
5 Economic conditions, including the lasting effects of the measures taken to tackle COVID-19	Volume and margin are affected particularly in vehicle sales Amendments to franchise contracts, embracing new legislation	- Close monitoring of UK economic conditions - Maintain close relationships with manufacturer partners - Focus on retention initiatives particularly in aftersales - Focus on cost control
6 Market and environmental considerations may drive fluctuation in used vehicle values	Used vehicle margin is affected and value of used vehicle inventory may decline	- Daily monitoring of used vehicle market to detect pricing movements - Real time inventory management and control to enable the Group to react quickly to pricing changes

LEGAL AND REGULATORY

Description of risk	Impact	Mitigation
7 Litigation and regulatory risk in an environment of ever increasing regulatory scrutiny	Litigation or breaching regulations could have a financial impact and/or reputational impact	- Standard Group-wide policies and procedures are in place to ensure compliance with relevant regulations, adherence to which is overseen by the Compliance Committee - In-house developed sales system to ensure regulatory compliance and ease of customer journey, with key checks in place. - Risk management programme in place aimed at preventing issues in the first instance but also providing appropriate response to any issues that do arise - Continuation of Group focus on customer experience and a partnership approach with its manufacturer partners, to minimise impact of regulatory changes, and ensure continued customer relationship
8 Failure to comply with Health and Safety (H&S) Policy	Injury to customers or colleagues	- Group has a dedicated H&S Manager - Group H&S Committee monitors compliance and recommends any corrective or preventative actions - Risk assessments in respect of COVID-19 carried out in all locations - Training for all colleagues - Specific H&S dashboard developed, monitoring KPIs - Independent external H&S audits carried out

COLLEAGUES

Description of risk	Impact	Mitigation
9 Failure to attract, develop and retain talent	Unable to deliver on business plans Colleagues who lack motivation and engagement	- Annual colleague satisfaction survey and action planning based upon the results - Significant investment in on-line and formalised training and development programmes delivered by in-house training department and external trainers as appropriate - Talent review and succession plans in place

Risk Management (continued)

Principal Risks and Uncertainties (continued)

SYSTEMS AND TECHNOLOGY

Description of risk	Impact	Mitigation
10 Failure of Group Information or telecommunication systems	Business is interrupted	- Robust business continuity process has been developed - Operation of this process is regularly tested, reviewed and updated as necessary
11 Group or key system provider is targeted for malicious cyber attack	Business is interrupted Data is compromised	- Robust business continuity process has been developed - Policy prohibits installation of non-Group software - Firewall and anti-virus protocols active and reviewed regularly - Penetration and vulnerability testing reviewed regularly to assess new threats

FINANCE AND TREASURY

Description of risk	Impact	Mitigation
12 Availability of credit and vehicle financing	Inability to secure funding impacting on distribution sales or expansion opportunities	- Detailed working capital cash flow monitoring in place - Maintain relationships with key banks - Leverage Group relationship with OEM finance companies and retail finance providers
13 Use of estimates	Variance in accounting judgement impacts profitability	- Key accounting judgements are reviewed on a regular basis to ensure these remain appropriate - Regular review of changes in accounting standards framework to assess any likely impact on the Group
14 Currency risk	Fluctuation in exchange rates impact the profitability of our manufacturer partners which may change their prices or support packages to the dealer network	- Portfolio of manufacturer partners spreads potential risk - No material foreign exchange transactions are undertaken directly by the Group

Viability and Going Concern

Viability Statement

Assessment of Prospects

The Group's business model and strategy are central to an understanding of its prospects. The Group's strategy is to grow a scaled automotive retail group in both volume and premium motor retail franchises, by acquisition or organic growth through enhanced performance. Further details of the Group's strategy can be found in the Strategic Report. The nature of the Group's activities is long-term, and the business model is open-ended.

The Assessment Process and Key Assumptions

The Group's prospects are assessed primarily through its strategic planning process. This process includes a detailed annual business plan review, led by the CEO through the Chief Executive's Committee.

The Board participates fully in the annual process through both the review and approval of the annual business plan and through annual strategic reviews. Part of the Board's role is to consider whether the plan continues to take appropriate account of the external environment including macroeconomic, political, social and technological changes. The output of the annual review process is an analysis of the risks that could prevent the plan from being delivered and financial forecasts highlighting the impact of the strategic plan. The latest updates to the strategic plan were finalised in February 2021 following this year's review.

This considered the Group's current position and the development of the business as a whole, and the Board assessed the viability of the Company over the three-year period to 28 February 2024.

The Directors believe that a three-year period is appropriate as the Group's financial forecasting encompasses this period.

Financial forecasts were prepared for the three-year period to 29 February 2024, so that two years nine months remains at the time of approval of this year's annual report. The first year of the financial forecasts comprised of the Group's detailed business plan. Years two and three of the forecasts are extrapolated from the first year, based on the overall content of the strategic plan.

The key assumptions in the financial forecasts, include:

- The core group with no acquisitive growth beyond a known pipeline, reflecting the Strategic and Brand Partners principal risks set out on page 38 of the Strategic Report.
- Prudent growth assumptions in both volume and margin, reflecting the risks set out on pages 38 to 40 of the Strategic Report.

The Board carried out a robust assessment of the principal risks facing the Group and the purpose of the principal risks on pages 38 to 40 is primarily to summarise those matters that could prevent the Group from implementing its strategy. A number of other aspects of the principal risks, because of their nature or potential impact, could also threaten the Group's ability to continue in business in its current form if they were to occur. This was considered as part of the assessment of the Group's viability, as explained below.

Assessment of Viability

Although the strategic plan reflects the Directors' estimate of the future prospects of the business, the Board has also considered the potential impact on the Group of a number of scenarios over and above those included in the plan, that would represent serious threats to its liquidity. The principal risks and mitigation steps that the Board considered as part of this viability assessment are set out in pages 38 to 40 of the Strategic Report. The Group also mitigates the principal risks it faces through the diverse revenue generation from all parts of the vehicle cycle, range of franchise representation and investment in complementary business streams together with regular monitoring to identify change quickly. The Board believes that the Group is well placed to manage its business risk successfully.

Viability and Going Concern (continued)

Viability Statement (continued)

Assessment of Viability (continued)

Based on their assessment of prospects and viability as set out above, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 29 February 2024.

Going Concern

By their very nature forecasts and projections are inherently uncertain. Based on what is known at this time and based upon the forecast information available, the Directors believe it appropriate to prepare accounts under the going concern basis. Therefore, the financial statements do not include the adjustments that would result if the Group and Company were unable to continue as going concerns.

On behalf of the Board

Robert Forrester
Chief Executive Officer
12 May 2021

Karen Anderson
Chief Financial Officer
12 May 2021

Corporate Governance Report

Chairman's Corporate Governance Statement

I am pleased to present the Group's Corporate Governance Report for this year. As Chairman, my role is to lead the Board, ensuring it operates effectively, and I take overall responsibility for the governance framework of the Company. I have worked with the Company Secretary and the Executive Directors throughout the year to continue to develop the Company's governance structures and practices and to improve its wider Environmental, Social & Governance (ESG) Strategy, and then to provide this report.

We continue to report under the QCA Corporate Governance Code ("QCA Code") and this report sets out how we comply with, and have applied, the principles and Code during the year.

As previously stated, the Group has a successful year, continuing to deliver on its strategy and achieving creditable financial results. This is despite, in the initial weeks of the financial year, the Board moving its focus to the Company's response to the impact of COVID-19, providing oversight and approving a number of updates to the market and measures to preserve the Group liquidity. The Board continues to work and interact well together and held frequent conference calls at which it received updates on the status of the response planning *and the impact on our employees, other stakeholders and the business. The ability to remain nimble and adapt remained as restrictions continued throughout the financial year.* The challenges of the last year have not prevented the Board from reviewing and strengthening its governance and wider ESG processes, and the changes made will be essential in supporting the long-term success of the Group and to communicating effectively with stakeholders on the Group's priorities and targets.

The Group has published its first long-term Sustainability Strategy 'Driving Sustainability' in this annual report (pages 29 to 31). The strategy, builds on the Group's long track record of making a positive contribution to Colleagues and the communities it operates in, outlines the Company's ambition to drive the sustainability agenda in the years ahead. The strategy includes ambitious targets and goals aligned to the strategic objectives of the Group. The sustainability strategy will also be made available on the Group's website.

The Group has had a consistent set of Values since its inception. These values are at the heart of Group culture and are embedded throughout the Group as described in the earlier Group Strategy and Colleagues sections. All decisions by the Board reflect these Values to ensure that the culture is maintained and all Group premises display and actively refer to the Values regularly. The colleague feedback survey indicated that this culture continues to be very strong -and has improved throughout the last year despite the challenges faced by colleagues. The Board reviews this in detail each year -as well as the results of the quarterly snapshot of colleague sentiment about the Group.

Changes During the Year

There have been no changes to the Board during the year. However, the expected term of Ken Lever's Non-executive directorship has been extended for a further 3 years to 2024 as Ken continues to make a significant and vital contribution.

It has been agreed that the Board will appoint a designated Non-executive Director to ensure *effective engagement with the Groups' colleagues outside of the current feedback routes.* Pauline Best will take on this role which will be developed over the coming year.

The Board delayed its annual board evaluation process this year and will undertake this when physical meetings are possible again and the operation of the Group has returned closer to *normal.* For this reason, the normal disclosures in respect of Principle 7 have not been included. Annual appraisals of the Executive Directors, with the CEO appraised by the Chairman, have continued as normal.

This year's Annual General Meeting ("AGM") will be held on 23 June 2021.

Andrew Goss

Non-executive Chairman

12 May 2021

Corporate Governance Report

QCA Code Principle

Where to find out more (page)

1. Establish a Strategy and business model which promotes long-term value for shareholders.
2. Seek to understand and meet shareholder needs and expectations.
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.
5. Maintain the Board as a well-functioning balanced team led by the Chair.
6. Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities.
7. Evaluate Board performance based on clear and relevant objectives seeking continuous improvement.
8. Promote a corporate culture that is based on ethical values and behaviours.
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other stakeholders.

Group Strategy - pages 9 – 16

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s172 statement - pages 4 – 7

Risk Management - pages 37 – 40

Board Leadership - pages 45 – 48

Board Leadership - pages 45 – 48

Not applicable this year

Group Strategy - pages 9 – 16

Colleagues - pages 33 – 36

Roles and Responsibilities – page 50

Division of Responsibilities – page 49

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Division of Responsibilities - page 49

Audit Report - pages 71 – 78

Remuneration Committee Report - pages 56 – 61

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Board Leadership

Board of Directors

The Board has three Non-executive Directors including the Chairman, together with three Executive Directors. The Chairman was considered independent on appointment and the other Non-executive Directors are considered to be independent.

Andrew Goss **Non-Executive Chairman**

Appointed 3 September 2018 as director
24 July 2019 as Chairman
Committee Membership
Audit Committee, Remuneration Committee, and
Chair of the Nominations Committee

Relevant Experience

Andrew (63) brings to the Group 40 years of experience in the automotive sector, having held senior roles in Citroen UK, Nissan Europe, Lexus (GB), Toyota (GB), Porsche and most recently Jaguar Land Rover. Between 2010 and 2013 Andrew headed Jaguar Land Rover's business in North America as its President and CEO, and between 2013 and 2018 he sat on the Jaguar Land Rover Board as Global Sales Operations Director. During this period, he also represented Jaguar Land Rover in its joint venture interests in China and in its Spark 44 advertising agency.

Ken Lever **Senior Independent Director**

Appointed 1 June 2015
Committee Membership
Remuneration Committee, Nominations
Committee and Chair of the Audit Committee

Relevant Experience

Ken (67) is a former partner of Arthur Andersen and has held senior executive director roles in many listed companies including Alfred McAlpine plc, Albright & Wilson plc and Tomkins plc. Ken was CFO of Numonyx in Switzerland from April 2008 to September 2010 and was CEO of Xchanging plc from June 2011 until December 2015. From 2007 to 2013, Ken was a Member of the Accounting Council of the Financial Reporting Council (formerly the UK Accounting Standards Board).

Ken is highly experienced in public company boardrooms as well as PLC transactions and also brings technical financial experience to the Board and his role as Chair of the Audit Committee.

External Appointments

Ken is Non-executive Chairman of Biffa plc and RPS Group plc and a Non-executive Director of Blu Prism plc and Gresham House Strategic plc.

Pauline Best **Non-Executive Director**

Appointed 31 May 2016
Committee Membership
Audit Committee, Nominations Committee and
Chair of the Remuneration Committee

Relevant Experience

Pauline (57) is an experienced Human Resources professional who was the Global People and Organisation Director of Specsavers and whose previous roles include Global Leadership and People Capability Director for Vodafone and Human Resources Director of Talkland.

Pauline's human resources and people experience is invaluable as Chair of the Remuneration Committee and she also brings that perspective to the Board. In the next year, Pauline's skills will be further utilised as the designated non-executive director for workforce engagement.

Board Leadership (continued)

Board of Directors (continued)

Robert Forrester **Chief Executive Officer**

Appointed 6 November 2006

Relevant Experience

Robert (51) was a Director of Reg Vardy plc between 2001 and 2006 where he held the roles of Finance Director and Managing Director. Robert qualified as a chartered accountant with Arthur Andersen. He was also a member of the Economic Growth Board of the Confederation of British Industry. Robert founded the Company in 2006.

David Crane **Chief Operating Officer**

Appointed 26 July 2018

Relevant Experience

David (53) was appointed as Commercial Director of the Group in February 2007 having been previously at Reg Vardy PLC since 1999. He was Commercial Director of Reg Vardy PLC between 2004 and 2006, until the sale of Reg Vardy PLC to Pendragon PLC in February 2006, at which point he was appointed Group Services Director of Pendragon PLC. Prior to his employment with Reg Vardy PLC he was Aftersales Operations Manager at Renault UK between 1991 and 1999. He was appointed to the position of COO in March 2016.

Karen Anderson **Chief Financial Officer**

Appointed 1 March 2019

Relevant Experience

Karen (49) was the Finance Director of the Group from 2006 to 2010 through its initial flotation and growth period, and stepped back into the Chief Financial Officer role from her role as Deputy CFO and Company Secretary.

From 2001 to 2006 she was employed by Reg Vardy PLC, where she ultimately held the position of Group Financial Controller. Karen qualified as a chartered accountant with Arthur Andersen. She was also a Trustee Director of the Group's defined benefit pension scheme, the Bristol Street Pension Scheme from 2007 to 2019.

Karen has a wealth of motor industry finance experience together with detailed knowledge of the operations of the Group, having helped to found the Company in 2006.

Board Meetings and Attendance

Board meetings are structured to allow the Board sufficient time to discuss and review financial performance, achievement of objectives, development of the Group's strategy, operational performance and risk and internal controls. Standing agenda items are discussed at each Board meeting, which include:

- Executive's Directors Reports – update on performance, strategic opportunities, industry and property matters compliance update and colleague matters
- Health and Safety Report – Summary of training undertaken throughout the Group, risk management plus commentary on any reported incidents
- Investor Relations ('IR') Report – update on market trends, share register movements and summary of IR activity

Board Leadership (continued)

Board Meetings and Attendance (continued)

During the financial year the Board has met formally 23 times via Teams video call. The number of meetings attended by each Director was as follows:

	BOARD MEETINGS		AUDIT COMMITTEE MEETINGS		NOMINATION COMMITTEE MEETINGS		REMUNERATION COMMITTEE MEETINGS	
	SCHEDULED	ATTENDED	SCHEDULED	ATTENDED	SCHEDULED	ATTENDED	SCHEDULED	ATTENDED
A P Goss	23	23	4	4	2	2	6	6
R T Forrester	23	23	4	1	2	1	6	3
D P Crane	23	23	4	1	2	-	6	-
K Anderson	23	23	4	4	2	-	6	-
K Lever	23	23	4	4	2	2	6	6
P Best	23	23	4	4	2	2	6	6

Conflicts

Any potential conflicts of interest with individual Directors are reviewed annually to ensure that there is no impact on a director's judgement. The Board's committees have non-executive membership or leadership, where appropriate.

Time Commitment

All Non-Executive Directors are required to devote sufficient time to meet their Board responsibilities and demonstrate commitment to their role, including understanding the Group's business. The time commitment varies for each individual Director but as a minimum two days per month is expected. All Executive Directors are full-time and are ordinarily expected to devote their full time and attention to the Group.

Additional Appointments

All Directors are required to consult with the Chairman and obtain Board approval before taking on any additional appointments. Executive Directors are not permitted to take on any other substantial appointment. As part of the selection process for any new Board candidates, any significant external time commitments are considered before an appointment is agreed.

Access to Advice

Should any Director judge it necessary to seek independent legal advice about the performance of their duties with the Company, they are entitled to do so at the Company's expense. All Directors have access to the advice and services of the Company Secretary for advice on their responsibilities or relevant regulation for advice on their responsibilities or relevant regulation. The Senior Independent Director also acts as a sounding board for Directors to ensure they benefit from his experience.

Board Leadership (continued)

Key Areas of Board Focus During the Year

STRATEGY	FINANCIAL PERFORMANCE	GOVERNANCE	SHAREHOLDER ENGAGEMENT	RISK
Immediate and ongoing response to the COVID-19 related restrictions Group strategy review Business development Reviewing M&A opportunities Approval of annual business plan and capital budget Review of colleague engagement survey	Approval of the FY2020 full year results and FY2021 interim results Monthly management accounts and comparison against annual business plan Long range forecast and funding requirement planning including the impact of COVID-19 restrictions on the liquidity requirements and debt covenants of the Group	Re-appointment of auditors Monitoring Compliance and Health and Safety Committees Monitoring Senior Managers and Certification Regime by the FCA regulated entities in the Group. Monitoring the culture and Values including colleague survey feedback Implementation of amended retail finance commission models following FCA publication of <i>Motor Finance Review</i>	Annual General Meeting Meetings with key shareholders on results roadshows Publication of regular updates in respect of the impact of the COVID-19 restrictions on the Group	Annual review of key Group risks and mitigating controls

Division of Responsibilities

The table below shows the key committees and their responsibilities.

	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	CEO COMMITTEE	COMPLIANCE COMMITTEE	HEALTH AND SAFETY COMMITTEE
Members	PLC BOARD COMMITTEES			• R T Forrester (Chair) • D P Crane • K Anderson • N Loose • 10 Senior Managers	• D P Crane (Chair) • K Anderson • N Loose • 2 Senior Managers	• 4 Senior Managers • H & S Manager
Delegated authorities	• Financial reporting • Financial risk management • Internal control	• Remuneration policy • Incentive plans • Performance targets	• Balance of the Board • Leadership of the Group • Director succession planning	• Review, communication, delivery and management of Group strategy and day to day operations	• Compliance with laws and regulations (excluding Health & Safety and environmental) • Whistleblowing procedures • Communication with regulators where required	• Compliance with Health & Safety and environmental law and regulations • Developing Group best practices
Reviews	• Full year and half year results • Accounting policies • Terms of engagement of auditors • Internal audit	• Achievement of performance targets for short and long term incentives • Senior management pay structure	• Composition of the Board • Skills, knowledge & experience on the Board • Diversity	• Group HR and IT strategy • Allocation of resources (financial and colleague) • Group performance	• Adequacy and effectiveness of Group policies in response to current law and regulation • Licences and consents required • Internal regulatory audit	• Health & Safety policies and procedures • Health & Safety audits • Accident statistics and causes
Recommends	• Re-appointment of auditors • Audit tender • Auditors' remuneration	• Level and structure of Executive remuneration • Remuneration policy	• Appointments to the Board	• Annual business plan to the Board • Group Vision	• Training • Policy change • Remedial or pre-emptive action	• Training • Policy change • Remedial or pre-emptive action
Monitors	• Integrity of financial statements • Effectiveness of internal controls and risk management • Internal audit function • Legal & regulatory requirements • External audit	• Appropriateness of Remuneration policy	• Independence of Non-Executive Directors • Succession planning	• Performance against key performance indicators, plans and prior year • Compliance with Group risk management strategy, policy and procedures	• Appropriate retail finance metrics • Indicators of non-compliance with policy • Any relevant complaints • Legal and regulatory developments	• Accidents and near misses • Changes to law and regulations • New sites to the Group and redevelopments • Other changes in working practice
Approves	• Statements in Annual Report concerning internal controls and risk management	• Remuneration policy • Remuneration packages for Executive Directors • Design of long term incentive plans	• Appointments for Executive Directors • Skills profile for Non-Executive Directors	• Appointments to dealership management positions • Performance related remuneration of dealership colleagues • Operational process and changes	• Reports to the Board • Submissions to relevant authorities • Changes to relevant policies and processes • Training programmes • Whistleblowing procedures	• Reports to the Board • Changes to relevant policies • Training programmes

Division of Responsibilities (continued)

Roles and Responsibilities

Chairman – Andrew Goss	The Chairman leads the Board and is responsible for its overall effectiveness in directing the Company. He promotes a culture of openness and debate facilitating constructive Board relations and the effective contribution of all Non-Executive Directors, and ensures that the Board receive accurate, timely and clear information.
Senior Independent Director – Ken Lever	The Senior Independent Director (SID) is an independent Non-Executive Director, who provides a sounding board for the Chairman and serves as an intermediary for the other Directors and shareholders where necessary. The SID also leads the annual appraisal and review of the Chairman's performance.
Non-executive Director – Pauline Best	As Non-Executive Director, Pauline is responsible for bringing an external perspective, sound judgement and objectivity to the Board's deliberations and decision making, and to support and constructively challenge the Executive Directors using her broad range of experience and expertise. She will also act as the nominated non-executive director for workforce engagement from 2021.
Chief Executive Officer – Robert Forrester	The Chief Executive Officer is responsible for the day-to-day running of the Group's businesses and the development and implementation of strategy, decisions made by the Board and operational management of the Group, supported by the Group Executive and Senior Management Teams.
Chief Operating Officer – David Crane	The Chief Operating Officer supports the Executive Management Team in developing and implementing strategy and is responsible for the oversight of the day-to-day administrative and operational functions of the Group.
Chief Financial Officer – Karen Anderson	The Chief Financial Officer, oversees the day-to-day financial activities of the Group, including ensuring that Group financial and operating policies and practices are adopted at all levels of the Group.

Nominations, Composition and Succession

The Nominations Committee continually reviews board composition to ensure that the Board provides the Group with the strategic oversight, vision and governance that it needs. *Ordinarily, Non-executive Directors serve for a maximum of six years.*

The Nominations Committee has carried out an assessment of the skills and experience of the Directors to identify any areas of weakness that can be addressed through training or future recruitment to the Board. The Board is currently satisfied that its current composition includes an appropriate balance of experience and skills including experience in the motor retail sector, experience with motor manufacturers and other relevant areas. The Board has received briefings during the year on relevant areas of regulatory change and the impact on the Group, and attended external training.

Appointment and Powers of the Company's Directors

All Directors appointed by the Board must retire and seek election at the first Annual General Meeting following their appointment. One third of the other Directors are then required to retire and submit themselves for re-election each year so that all Directors are required to retire and submit themselves for re-election at least once in every three years. The Board is satisfied that plans are in place for orderly succession for appointments to the Board and senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

Appointment and removal of Directors is governed by the Company's articles of association (the Articles), the Companies Acts and related legislation. A Director may be appointed by an ordinary resolution of the Company's shareholders following recommendation of the Nominations Committee as approved by the Board, or following retirement by rotation if the Director chooses to seek re-election. Alternatively, the Directors may appoint a Director to fill a vacancy or as an additional Director provided that the individual retires at the next Annual General Meeting (and offers themselves to election if appropriate).

Subject to the Articles (which shareholders may amend by special resolution), relevant legislation and any directions given by special resolution, the Company and its Group is managed by its board of Directors. By resolutions passed at Company general meetings, the shareholders have authorised the Directors: (i) to allot and issue ordinary shares; and (ii) to make market purchases of the Company's ordinary shares (in practice exercised only if the Directors expect it to result in an increase in earnings per share). The authorities conferred on the Directors at the 2020 Annual General Meeting will expire on the date of the 2021 General Meeting. Details of movements in the Company's share capital are given in note 31 to the consolidated financial statements.

Succession

The Nominations Committee has responsibility for succession planning for the Board and recommended Ken Lever's term of appointment be extended in the last year. Where appropriate the Committee uses external advisers to assist with candidate identification and benchmarking.

Succession planning for other senior management roles is conducted by the HR Director and CEO with input from other members of management as appropriate and overview by the Remuneration Committee.

Andrew Goss

Non-Executive Chairman

Audit, Risk and Internal Control

Audit Committee Report

Audit Committee Membership and Meetings

During the year the Audit Committee was comprised of Committee Chairman, K Lever and two other Non-Executive Directors of the Group, namely, A P Goss and P Best. The Committee met three times during the financial year and attendance is shown in the table on page 47.

Only members of the Committee are required to attend Committee meetings, however, other individuals (such as the Chief Executive, Chief Financial Officer, Chief Operations Officer or Company Secretary and external auditors) are able to attend by invitation.

The key responsibilities of the Committee are set out in the table on page 49.

Activities during the year

During the year the Committee focused on the following matters:

- Review of the interim and year-end financial statements for the Group
- Review of the consistency and appropriateness of the accounting policies
- Review of the methods used to account for significant transactions, completeness of disclosures and material areas in which significant judgements had been applied
- Review of the effectiveness of internal controls, risk assessment process, the assurance process and changes to significant risks
- Approval of the terms of engagement, strategy, scope and effectiveness of external auditors

Significant Issues

As part of the reporting and review process, the Committee has discussed the significant issues considered in relation to the financial statements and how those issues were addressed.

During the year the Committee considered the following key risks, accounting issues and judgements:

Significant issue	Action taken
Carrying value of goodwill, other intangibles and tangible assets	Management performed a detailed impairment review on the goodwill, other intangibles and tangible assets, in the consolidated financial statements of the Group, based on forecast future cash flows. The Committee challenged the methodology, assumptions, and sensitivity analysis used by management. The Committee also considered the independent review by the external auditors. The Committee concluded that the February 2021 carrying amounts shown in notes 15, 16 and 18 of the consolidated financial statements were appropriate and approved the disclosures.
Valuation of inventory	The Group's assessment of the valuation of used vehicle inventory at 28 February 2021 involves an element of estimate to determine the expected net realisable value post year end. Key assumptions used in the valuation of used vehicle inventory at 28 February 2021 include sales which took place post year end latest industry guidance and historical trends. The committee reviewed and challenged the assumptions applied in determining the valuation of inventory at 28 February 2021 as shown in note 21 and concluded that these were appropriate.

Audit, Risk and Internal Control (continued)

Audit Committee Report (continued)

Significant Issues (continued)

Significant issue	Action taken
Viability and Going Concern	Management have prepared detailed financial projections for a period of 12 months from the date of signing the financial statements ('Review Period'). These projections are based on the Group's detailed annual business plan. Management have reviewed the output of these detailed projections alongside the Group's funding facilities and banking covenants, further details of which are provided in note 26 of the consolidated financial statements. Sensitivity analysis has been performed to model the impact of more adverse trends compared to those included in the financial projections to model the impact of severe but plausible downside risks. <i>By their very nature forecasts and projections are inherently uncertain. Circumstances could arise under which extreme downside scenarios may occur that would render the preparation of accounts based on the assumption of a going concern inappropriate. Based on what is known at this time and based upon the forecast information available, the Directors believe it appropriate to prepare accounts under the going concern basis.</i> The Committee challenged the assumptions used and also considered the review conducted by the external auditors. The Committee concluded that the Board is able to make the Viability and Going Concern statements on pages 41 and 42.
Pension benefits	Assets and obligations under the "Bristol Street Pension Scheme", which is a defined benefit scheme in which accrual ceased on 31 May 2003, are recognised in the balance sheet. The valuation of the scheme assets and the present value of the obligations are calculated by external advisors. The Committee reviewed the assumptions applied in calculating the scheme assets and obligation (set out in note 30) at 28 February 2021 and confirmed that these were appropriate.
Manufacturer bonus income	Income is received from manufacturer partners in the form of rebates and volume related bonuses. A Group wide income recognition policy is in place in respect of this income. Management allocate responsibility to Divisional Finance Directors, as nominated 'franchise experts' to ensure bonus programmes are fully understood and communicated to Dealership teams. The Group's internal audit function reviews the treatment of manufacturer bonus income recognition on a dealership-by-dealership basis. The Committee also considered the review performed by the external auditors. The Committee concluded that it was satisfied with the income recognition policy, and with the appropriateness of the controls currently in operation, over manufacturer bonus income recognition.
Revenue recognition	The Group's main product/service lines are the sale of motor vehicles, parts and aftersales services. The Group operates an income recognition policy that ensures that revenue is recognised in line with satisfaction of the performance obligation, as set out in note 1 of the consolidated financial statements. Given the complexity of the initial sale of a vehicle which can represent several bundled products, judgement is involved in isolating the constituent parts of the transaction and ensuring revenue is recognised appropriately. The committee reviewed the assumptions set out in the revenue recognition policy and confirmed that the assumptions applied are appropriate.

Audit, Risk and Internal Control (continued)

Audit Committee Report (continued)

Financial and Business Reporting

The Committee is responsible for monitoring the integrity of the financial statements including the Group's annual and half-yearly results and ensuring they are fair, balanced and understandable.

The external auditors also provide an auditors' report to the members providing an independent opinion on the truth and fairness of the Group's financial statements. This report can be found on pages 71 to 78.

Risk Management and Internal Controls

The Group has well established risk management and internal control processes. These are regularly subject to audit and the results are reported to the Audit Committee and the Board for their review.

Day to day management of risk is delegated to the Chief Executive's Committee, which consists of the Chief Executive, the Chief Financial Officer, the Company Secretary, the Chief Operations Officer, the Chief Marketing Officer, the HR Director, and the seven Divisional Operations Directors of the Group.

The Audit Committee confirms that the effectiveness of the system of internal control, covering all material controls including financial, operational and compliance controls and risk management systems, has been reviewed during the year under review and up to the date of approval of the Annual Report.

Internal Audit

The Group Risk team report regularly on the audits carried out in each dealership which, for the financial year ended 28 February 2021, covered both balance sheet and sales process audits as well as audits of key financial control processes. The Group Risk team met with the Committee without the presence of management.

External Audit

The Audit Committee has recommended to the Board that a resolution be put to shareholders at the Annual General Meeting to reappoint PricewaterhouseCoopers LLP as auditors of the Company for a further year subject to their continued satisfactory performance. PricewaterhouseCoopers LLP have been appointed as auditors to the Company for the previous twelve financial years. In accordance with ethical standards requirements the audit partner responsible for the engagement was subject to rotation after each five-year period and since February 2019 has been Jonathan Greenaway. No tender has been conducted. The Committee reviewed the effectiveness, independence and objectivity of the external auditors and no matters of concern were raised during the financial year to 28 February 2021.

The external auditors attend some of the Committee meetings and the Committee meets with the external auditors without management present.

Audit, Risk and Internal Control (continued)

Audit Committee Report (continued)

Independence of the Independent Auditors

Both the Audit Committee and the Independent Auditors have in place safeguards to avoid the Independent Auditors' objectivity and independence being compromised. The Group's policy with regard to services provided by the Independent Auditors, PricewaterhouseCoopers LLP, is as follows:

- Statutory audit services

The Independent Auditors, who are appointed annually by the shareholders, undertake this work. The Independent Auditors also provide regulatory services and formalities relating to shareholder and other circulars. The Committee reviews the Independent Auditors' performance on an ongoing basis.

- Further assurance services (this includes work relating to acquisitions and disposals)

The Group's policy is to appoint advisors to undertake such work where their knowledge and experience is appropriate for the assignment. Where PricewaterhouseCoopers LLP are used the Board reviews their independence and expertise on every assignment. Other professional services firms are employed in certain cases on acquisition and disposal related assignments.

- Other non-audit services

The Independent Auditors are not permitted to provide internal audit, risk management, litigation support or remuneration advice. The provision of other non-audit services, is assessed on a case by case basis, depending on which professional services firm is best suited to perform the work. These safeguards, which are monitored by the Committee, are regularly reviewed and updated to ensure they remain appropriate. The appointment of PricewaterhouseCoopers LLP to provide non-audit services requires Board approval for any assignment with fees above a set financial limit. The Independent Auditors report to the Committee on the actions they take to comply with the professional and regulatory requirements and best practice designed to ensure their independence, including the rotation of key members of the audit team. PricewaterhouseCoopers LLP have formally confirmed this to the Board. The disclosure of non-audit fees paid to PricewaterhouseCoopers LLP during the year is included in note 7 to the consolidated financial statements.

K Lever

Chairman of Audit Committee

12 May 2021

Remuneration Committee Report

Annual Statement from the Chair of the Remuneration Committee

Introduction

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ended 28 February 2021. This Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee ("the Committee") in accordance with the Companies Act 2006, as well as with the spirit, principles and, as far as is reasonably practical, the requirements of the Quoted Companies Alliance Remuneration Guidance, the Investment Association's Principles of Remuneration and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, notwithstanding that, as the Company is listed on AiM, these regulations do not all strictly apply. This report is split into two sections;

- the Directors' remuneration policy sets out the Company's intended policy on Directors' remuneration from 1 March 2021 and is provided for information to shareholders; and
- the annual report on remuneration sets out payments and awards made to the Directors and details the link between Company performance and remuneration for the year to 28 February 2021 and is subject to an advisory shareholder vote at this year's AGM.

The information in the Directors' Remuneration Report set out on pages 63 to 64 highlighted as being subject to audit, has been audited by the Group's auditors.

Key remuneration decisions for the year to 28 February 2022

In the last remuneration report, the Company announced that the Executive Directors had agreed to waive their annual bonus entitlement for the financial year ended 28 February 2021 in light of the expected impact of the COVID-19 pandemic. In the light of the performance of the Group and the Executive team over the year, the Committee decided to award a one-off bonus to the Executives for FY21 to be paid in May 2021. This bonus (of £100,000 to each of David Crane and Karen Anderson, and £200,000 to Robert Forrester) will be paid 50% in cash and 50% in shares in the Company (by way of transfer from the Company's employee benefit trust). The Executives will be required to retain these shares for at least three years from the date of issue.

Following the review of Executive Director packages carried out in FY20, the basic salary for R Forrester was further increased with effect from 1 March 2021 to bring it more into line with competitors in the sector.

The Executive Director annual bonus structure has been adjusted for the year commencing 1 March 2021. It continues to include measures on financial performance, customer satisfaction and colleague satisfaction with 70% of bonus relating to profit targets with the remaining 30% split equally across customer outcome and colleague outcome measures. The maximum earnings level of 135% of on-target earnings equates to delivery of 135% of the business plan.

The Partnership Share Scheme that was introduced for other senior management colleagues in the Group for the year commencing 1 March 2020 has been very well received and resulted in 66.66% of the nil cost options awarded vesting. Colleagues will receive the vested shares in 3 years' time. The Partnership Share Scheme has been repeated for the year commencing 1 March 2022 on the same basis.

LTIP changes

As mentioned in the last remuneration report, the Committee had postponed the proposal to consult with shareholders in 2020 to alter the Group's Long Term Incentive Plan ("LTIP") for the Executive Directors at the 2020 Annual General Meeting.

The Remuneration Committee concluded that it is necessary to move away from a long-term incentive plan that required the setting of three-year targets (historically absolute TSR growth and average Group ROE and last year cumulative adjusted profit before tax) to a four-year plan where the targets are annual targets. Even before the disruption caused by COVID-19, it became clear to the Remuneration Committee that the volatility and uncertainty that is impacting on the Motor Retail Industry has meant that three-year targets do not provide an

Remuneration Committee Report (continued)

Annual Statement from the Chair of the Remuneration Committee (continued)

LTIP changes (continued)

incentive for participants and do not fairly align pay with the performance of the Company taking into account the macro economic factors which apply to the Company. The LTIP has historically not achieved the objective of increasing the executives' shareholdings in the Company.

Therefore, the Remuneration Committee is proposing to amend the current Long-term Incentive Plan for the Executive Directors to match the nil-cost option Restricted Share Scheme introduced for the other senior management in the Group last year (the Partnership Share Scheme). Under the amended plan, an award will be made in the form of a nil-cost option at the beginning of each financial year over a maximum value of shares (to be determined annually by the Remuneration Committee). Following the end of each year, there will be an initial testing of performance directly linked to the level of pay-out of each participant's annual bonus for that year. For example, if the annual bonus pay-out is at 75% of maximum then 25% of the award under the LTIP will lapse at that time. If no bonus was payable, then all of the award under the nil-cost option would lapse. However, an award under the nil-cost option will not be exercisable at this time but will continue for a further three years (so four years in total). Exercise will be subject to continued employment and a soft underpin under which the Remuneration Committee will need to be satisfied that the Executive Directors have continued to perform in accordance with the long-term strategic plan of the Company. If the Remuneration Committee is not satisfied, then it may reduce the level of exercisable options to such level (including zero) as it feels is appropriate.

The Committee has decided to implement the changes this year to apply the Partnership Share Scheme to the Executive Directors from 1 March 2021. As for other senior colleagues, the Executives would receive nil cost share options in the Company this year equivalent to 30% of their on-target earnings. The changes to the LTIP to implement this will be proposed for shareholder approval at the AGM in 2021.

These award levels are much lower than the level of awards made historically under the LTIP, but have much greater likelihood of being earned, resulting in shareholdings for the Executives being increased over time.

Conclusion

The Directors' remuneration policy which follows this annual statement sets out the Committee's principles on remuneration for the future and the annual report on remuneration provides details of remuneration for the year ended 28 February 2021. The Committee will continue to be mindful of shareholder views and interests, and we believe that our Directors' remuneration policy continues to be aligned with the achievement of the Company's business objectives. We hope that we can rely on your votes in favour of the annual report on remuneration.

By Order of the Board:

P. Best

Chairman of Remuneration Committee
12 May 2021

Remuneration Committee Report (continued)

Remuneration Policy

The policy of the Committee is to ensure that the Executive Directors are fairly rewarded for their individual contributions to the Group's overall performance and to provide a competitive remuneration package to Executive Directors, including long-term incentive plans, to attract, retain and motivate individuals of the calibre required to ensure that the Group is managed successfully in the interests of shareholders. In addition, the Committee's policy is that a substantial proportion of the remuneration of the Executive Directors should ordinarily be performance related, consistent with the balance of remuneration paid to Directors and Senior Management in the automotive retail sector.

Future Policy Table

The main elements of the remuneration package of Executive Directors are set out below:

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
BASIC SALARY			
Attract and retain high calibre Executive Directors to deliver strategy.	Paid in 12 equal monthly instalments during the year.	Reviewed periodically to reflect experience, role, responsibility and performance of the individual and the Group, and to take into account rates of pay for comparable roles in similar companies. When selecting comparators, the Committee has regard to, <i>inter alia</i> , the Group's revenue, profitability, market worth and business sector. There is no prescribed maximum increase. Annual rates are set out in the annual report on remuneration for the current year and the following year.	None
BENEFITS			
Provide benefits consistent with role.	Currently these consist of the option of two company cars, or access to an employee car ownership scheme, health insurance, critical illness and life assurance and the opportunity to join the Company's share incentive plan ("SIP"). The Committee reviews the level of benefit provision from time to time and has the flexibility to add or remove benefits to reflect changes in market practices or the operational needs of the Group.	The cost of providing benefits is borne by the Company and varies from time to time.	None
ANNUAL BONUS			
Incentivises achievement of business objectives by providing rewards for performance against annual profit targets, customer outcome targets including manufacturer new car and service customer satisfaction ("CSI") scores as well as used car Judge Service results, and colleague satisfaction and/or stability measures, with exact measures reviewed annually.	Paid in cash after the end of the financial year to which it relates.	It is the normal policy of the Committee to cap maximum annual bonuses. The level of such caps are reviewed annually.	Targets are based on adjusted profit before tax of the Group and customer outcome measures. The Committee sets performance measures, threshold and maximum targets on an annual basis. A sliding scale operates between threshold and maximum performance. No bonus is payable where performance is below the threshold of 85% (increased from 75%). Payment of any bonus earned is subject to overriding discretion of the Committee in the event of gross misconduct.

Remuneration Committee Report (continued)

Remuneration Policy (continued)

Future Policy Table (continued)

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
LONG-TERM INCENTIVES			
Alignment of interests with shareholders by providing long-term incentives delivered in the form of shares through the Partnership Share Scheme (subject to approval at the 2021 AGM).	Grant of £Nil cost options under the Partnership Share Scheme. Options vest in proportion to the amount of annual bonus earned in the year of issue. Options may then be exercised after 3 years	Annual award of options is 30% of on-target earnings for FY22. The Remuneration Committee will determine at the beginning of future financial years, the maximum value of shares over which an award can be granted. <i>The previous maximum award level under the Remuneration Policy is 125% of salary and the Remuneration Committee is reducing this to 75% of salary.</i>	Vesting is pro rata to achievement of the participant's bonus measures for the year.
PENSION			
Attract and retain Executive Directors for the long-term by providing funding for retirement.	All Executive Directors are entitled to participate in money purchase arrangements, or to receive a cash allowance in lieu of pension contributions.	The Group currently makes payments of up to 16.5% of basic salary into any pension scheme or similar arrangement as the Executive Director may reasonably request. Such payments are not counted for the purposes of determining bonus or LTIP levels. <i>Any new Directors would receive a pension contribution in line with the majority of the workforce.</i>	None

Notes to the Policy Table

Differences from remuneration policy for all employees

All employees of the Company are entitled to base salary or hourly rate and various other colleague benefits. The opportunity to earn a bonus is made available to all management colleagues in the Group. The maximum opportunity available is based on the seniority and responsibility of the role.

Share options are only granted under the Partnership Share Scheme to senior management in the Group.

Statement of consideration of employment conditions of employees elsewhere in the Group

The Committee receives reports on an annual basis on the level of any pay rises awarded across the Group and takes these into account when determining salary increases for Executive Directors. *In addition, the Committee receives regular reports on the structure of remuneration for senior management in the tier below the Executive Directors and uses this information to ensure a consistency of approach for the most senior managers in the Group.* The Committee also approves the award of any long-term incentives and other share schemes.

The Committee does not specifically invite colleagues to comment on the Directors' remuneration policy, but it does take note of any comments made by colleagues.

Statement of consideration of shareholder views

The Chairman of the Committee consults with major shareholders from time to time or where any significant remuneration changes are proposed, in order to understand their expectations with regard to Executive Directors remuneration and reports back to the Committee. The Committee consulted with certain major shareholders in relation to the amendments to the LTIP for Executive Directors proposed in 2021, and in relation to the bonuses being paid to the Executive Directors for FY21. The Committee also takes into account emerging best practice and guidance from major institutional shareholders and advisors.

Remuneration Committee Report (continued)

Remuneration Policy (continued)

Notes to the Policy Table (continued)

Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to offer a market competitive remuneration package sufficient to attract high calibre candidates who are appropriate to the role but without paying any more than is necessary.

Any new Executive Director's regular remuneration package would include the same elements and be in line with the policy table set out earlier in this Directors' remuneration policy (subject to the statement regarding pension contributions and any specific personal targets or development), including the same limits on performance related remuneration.

Where an internal candidate is promoted to the Board the original grant terms and conditions of any bonus or share award made before that promotion will continue to apply, as will membership of any of the Group's pension arrangements.

Reasonable relocation and other similar expenses may be paid if appropriate.

Directors' Service Contracts, Notice Periods and Termination Payments

Provision	Policy	Details
Notice periods in Executive Directors' service contracts	12 months by Company or Executive Director	Executive Directors may be required to work during the notice period.
Compensation for loss of office	No more than 12 months' basic salary and benefits (including company pension contributions).	
Treatment of annual bonus on termination	Bonuses which have already been declared are payable in full. In the event of termination by the Company (except for cause) pro-rated bonus to the end of the notice period is payable at the discretion of the Remuneration Committee.	
Treatment of LTIP awards	Unvested awards will normally lapse on cessation of employment. However, for Good Leavers the Committee shall determine whether the award is released on the normal release date or on some other date. The extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Following release, Good Leavers may exercise their options within 12 months (or such a period as the Committee determines). Good Leaver awards that have vested but not been released (i.e. during the holding period) will ordinarily continue to the normal release date when they will be released to the extent vested. The Committee retains the discretion to release awards earlier. LTIP awards of other leavers will cease to be exercisable following notice of cessation of employment, unless the Committee determines otherwise in exceptional circumstances.	Good leaver circumstances comprise death, illness, injury, disability, retirement, transfer of employing business outside Group or exceptional circumstances at the discretion of the Committee.
Exercise of discretion	Intended only to be relied upon to provide flexibility in exceptional or inequitable circumstances.	The Committee's determination will take into account the particular circumstances of the Executive Director's departure and the recent performance of the Company and will be detailed in the next published Remuneration Committee Report.
Outside appointments	Subject to approval	Board approval must be sought.
Non-Executive Directors	Re-election	All Non-Executives are subject to re-election every three years. No compensation payable if required to stand down.

Remuneration Committee Report (continued)

Directors' Service Contracts, Notice Periods and Termination Payments (continued)

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

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

Non-Executive Directors' Fee Policy

The policy for the remuneration of the Non-Executive Directors is as set out below. Non-Executive Directors are not entitled to a bonus, they cannot participate in the Company's share option scheme and they are not eligible for pension arrangements.

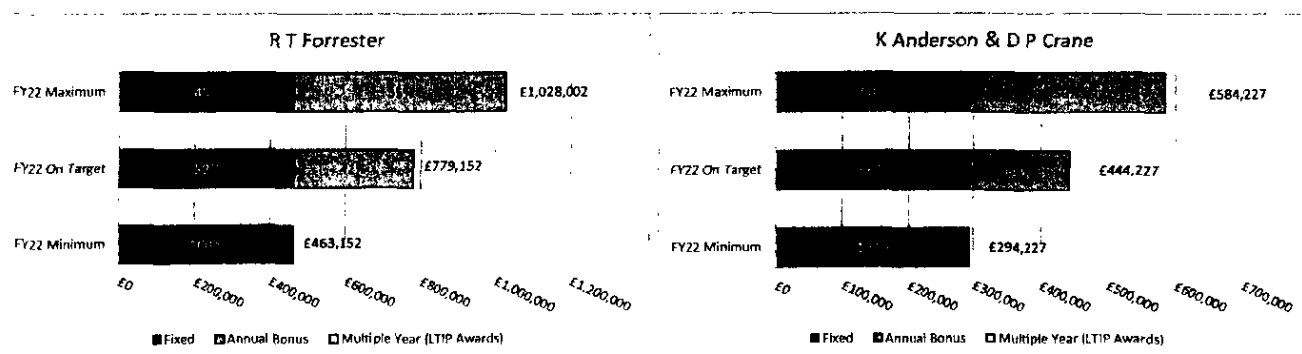
Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
NON-EXECUTIVE DIRECTOR (NED) FEES			
To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy	NED fees are determined by the Board within the limits set out in the Articles of Association and are paid in 12 equal monthly instalments during the year. Non-Executive Directors may be eligible for benefits such as the use of secretarial support or other benefits that may be appropriate. They also receive a company car with insurance, using a scheme and type of the Company's choosing.	Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase. The cost of providing benefits is borne by the Company and varies from time to time.	None

Directors' Remuneration Report

Total 2021/22 Remuneration Opportunity

The chart below illustrates the remuneration that would be paid to each of the Executive Directors in 2021/22 financial year under three different performance scenarios: (i) Minimum; (ii) On-target; and (iii) Maximum.

The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable (annual bonus awards); and (iii) Multiple year (LTIP awards) which are set out in the future policy table above. The element included for multiple year (LTIP Awards) relates to options which are capable of vesting in the financial year to 28 February 2022.



Each element of remuneration is defined in the table below:

Element	Description
Fixed	Base salary for the 2021/2022 financial year plus pension and benefits.
Annual Bonus	Annual bonus awards based on adjusted profit before tax, customer outcome measures and colleague retention targets.
Multiple Year (LTIP Awards)	Value of LTIP awards (including Partnership Shares) which are capable of vesting in the year ending 28 February 2022 based on the share price on 1 March 2021.

The on-target scenario assumes that for the annual bonus, adjusted profit is in line with financial targets.

Directors' Remuneration Report (continued)

Annual report on remuneration

The annual basic salaries and fees to be paid to Directors in the year ending 28 February 2022 are set out in the table below, together with any increase expressed as a percentage.

	Annual Salary/fees		Increase
	28 February 2022 £'000	28 February 2021 £'000 ¹	
R T Forrester	395	355	11.3
K Anderson	250	250	-
D P Crane	250	250	-
K Lever	62	55	12.7
P Best	52	40	30.0
A P Goss	130	100	30.0

¹ The Executive Directors waived 30% of their basic salary for the months of April and May 2020, and the Non-Executive Directors waived 30% of their fees for the months of April and May. The figures in the table above do not include this reduction.

Information subject to audit

Single Total Figure of Remuneration

The remuneration of the Directors who served during the period from 1 March 2020 to 28 February 2021 is as follows:

	Salary or fees £'000		Taxable Benefits ¹ £'000		Pension £'000		Bonus £000		Long Term Incentive Plan £'000		Single total figure £'000	
	2021	2020	2021	2020	2021	2020	2021 ²	2020	2021	2020	2021	2020
Executive Directors												
R T Forrester	337	315	3	3	56	52	200	283	-	37	596	690
K Anderson	238	170	3	3	39	28	100	106	-	14	380	321
D P Crane	238	250	3	3	39	41	100	106	-	14	380	414
Non-Executive Directors												
A P Goss	95	76	1	1	-	-	-	-	-	-	96	77
K Lever	52	55	-	-	-	-	-	-	-	-	52	55
P Best	38	40	1	1	-	-	-	-	-	-	39	41

¹ Taxable benefits include vehicle insurance, together with medical and life assurance premiums

² Bonuses in respect of the financial year ended 28 February 2021 were awarded 50% with cash and 50% with shares of an equivalent value (transferred from the Employee Benefit Trust).

Annual Bonuses

The Executive Directors agreed to waive their annual bonus entitlement for the financial year ended 28 February 2021 in light of the expected impact of the COVID-19 restrictions on the business. However, in light of the performance of the Group and Execution team over the year, the Remuneration Committee decided to award a one-off bonus to the Executives for the financial year, to be paid in May 2021. This bonus (of £100,000 to each of D. P. Crane and K. Anderson and £200,000 to R. T Forrester) will be paid 50% in cash and 50% in shares in the Company (by way of transfer from the Company's employee benefit trust). The Executives will be required to retain these shares for at least three years from the date of issue.

Pensions

The Group operates a group personal pension plan for eligible colleagues. R T Forrester and D P Crane elected to cease active membership of the plan and receive a payment of 16.5% of current basic salary rather than Company pension contributions during the year ended 28 February 2021.

Directors' Share Options

The movement in share options held by the Directors during the year ended 28 February 2021 is as follows:

	Number at 1 March 2020	Exercised in Year	Lapsed in Year	Granted in Year	Cancelled in the year	Number at 28 February 2021
R T Forrester	1,031,903	-	(303,030)	-	(466,665)	262,208 ¹
K Anderson	1,394,512	-	(113,636)	-	(350,876)	930,000
D P Crane	1,478,095	-	(113,636)	-	(350,876)	1,013,583

¹ The July 2018 LTIP issue lapsed in full subsequent to 28 February 2021 as a result of not satisfying the relevant performance criteria. This included 262,208 options held by R T Forrester.

Directors' Remuneration Report (continued)

Directors' Share Options (continued)

LTIP option vesting criteria:

Vesting of one half of the LTIP options is dependent on absolute growth in the Company's TSR. TSR calculations will be based on the average of opening and closing share prices over a 10 Business Day period prior to the commencement and end of the performance period. Vesting of the remaining half of the LTIP options is dependent on the Group's return on shareholders' equity ('ROE').

The TSR performance condition, applying to half of the LTIP options granted is:

Growth in Company TSR	Proportion of awards subject to TSR condition vesting
Less than 26% absolute growth	0%
More than 26% but less than 42% absolute growth	Straight line vesting 0 – 100%
42% or more than 42% absolute growth	100%

The ROE performance condition, applying to the remaining half of the LTIP options is:

Group ROE ¹	Proportion of awards subject to ROE condition vesting
Less than 8%	0%
More than 8% but less than 10%	Straight line vesting 0 – 100%
10% or more than 10%	100%

¹ROE is measured as average annual adjusted profit after tax as stated in the financial statements for the performance period, divided by average Group Net Assets

CSOP Options vesting criteria

Options issued on 2 July 2018 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 62.5p and then 100% of the options vest. At an average share price of 57.5p 50% of the options are exercisable. At prices between 57.5p and 62.5p, options will vest on a straight-line basis between 50% and 100%. At a share price below 57.5p none of the options are exercisable.

Options issued on 8 November 2018 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 50.9p and then 100% of the options vest. At an average share price of 44.6p 50% of the options are exercisable. At prices between 44.6p and 50.9p, options will vest on a straight-line basis between 50% and 100%. At a share price below 44.6p none of the options are exercisable.

Statement of Directors' Shareholding

The Directors who held office at 28 February 2021 and their connected persons had interests in the issued share capital of the Company as at 28 February 2021 as follows:

	Number of shares held (including by connected persons)		Vested unexercised share options		Unvested share options subject to performance conditions	
	28 February 2021	29 February 2020	28 February 2021	29 February 2020	28 February 2021	29 February 2020
R T Forrester	7,225,215	7,071,465	-	-	262,208 ¹	1,031,903
K Anderson	901,074	893,039	430,000	430,000	500,000 ²	964,512
D P Crane	195,705	187,670	513,583	513,583	500,000 ²	964,512
K Lever	100,800	100,800	-	-	-	-
P Best	-	-	-	-	-	-
A P Goss	62,083	62,083	-	-	-	-

¹ The July 2018 LTIP issue lapsed in full subsequent to 28 February 2021 as a result of not satisfying the relevant performance criteria. This included 262,208 options held by R T Forrester.

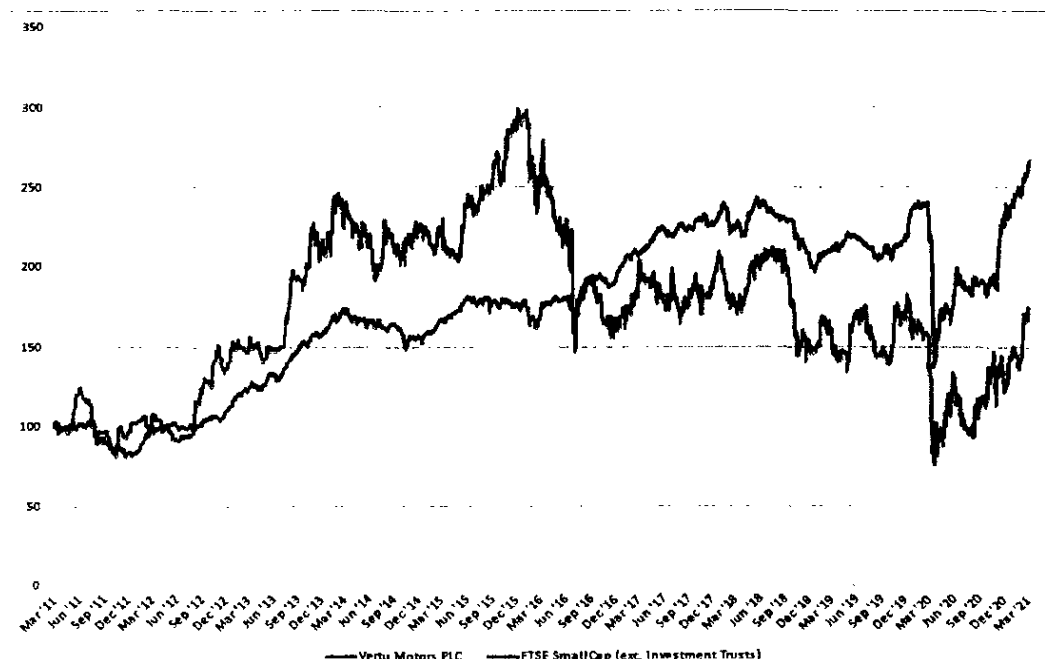
² These unvested share options are CSOP options subject to vesting criteria relating to share price performance.

Directors' Remuneration Report (continued)

Information not subject to audit

Performance Graph

The chart below shows the Company's eight-year annual Total Shareholder Return ("TSR") performance against the FTSE small cap index (excluding investment trusts), which is considered to be an appropriate comparison to other public companies of a similar size.



The middle market price of the shares as at 28 February 2021 was 39.3p (29 February 2020: 31.7p) and the range during the financial year was 17.3p to 40.2p (2020: 31.1p to 42.0p).

Change in Remuneration of Chief Executive

The following table sets out the change in the Chief Executive's salary, benefits and bonus between the years ended 29 February 2020 and 28 February 2021 compared with the average percentage change in each of those components for the employees of the Group.

	Increase in base salary	Change in benefits	Change in bonus
CEO	7.0%	-	(29.3%)
Employees	4.4%	-	(15.8%)

Date of Service Contracts/Letters of Appointment

DIRECTOR	Date of service contract/letter of appointment
R T Forrester	20 December 2006
K Anderson	1 March 2019
D P Crane	25 July 2018
A P Goss	19 July 2019
K Lever	25 February 2021
P Best	1 June 2016

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

Directors' Remuneration Report (continued)

Relative Importance of Spend on Pay

The table below sets out the total spend on remuneration in the Group in the years ended 29 February 2020 and 28 February 2021 compared with other disbursements from profit (i.e. the distributions to shareholders).

	Spend in the year ended 28 February 2021 £'000	Spend in the year ended 29 February 2020 £'000	% change
Spend on remuneration (including Directors)	176,306	200,167	(11.9%)
Profit distributed by way of dividend	-	6,122	(100.0%)

Shareholders' Vote on Remuneration at the 2020 AGM

2020 Directors' Remuneration Report	Number	Proportion of votes cast (%)
Votes cast in favour	164,073,925	91.63
Votes cast against	14,996,436	8.37
Total votes cast in favour or against	179,070,361	100.00
Votes withheld	6,539,629	

The Committee

The Committee is responsible for reviewing and recommending the framework and policy for remuneration of the Executive Directors. The Committee's terms of reference are available on the Company's website. The members of the Committee during the financial year were P Best (Chairman), K Lever and A P Goss.

Directors Report

The Directors report sets out the information required to be disclosed by the Company in compliance with the Companies Act 2006 and the Financial Conduct Authority's Disclosure and Transparency Rules (DTR). It forms part of the management report as required under the DTR, along with the Strategic Report (pages 2 - 42) and other sections of this Annual Report and Accounts. The below requirements are covered by reference as set out below:

Information	Reported within	Pages
Acquisitions and disposals	Strategic Report	2-42
Business model	Strategic Report	2-42
Corporate Governance Framework	Corporate Governance Report	43-70
Community and charitable giving	Strategic Report	2-42
Details of Directors	Corporate Governance Report	43-70
Directors' share interests and remuneration	Directors Remuneration Report	62-66
Diversity, equality and inclusion	Strategic Report	2-42
Employee engagement	Strategic Report	2-42
Financial Instruments	Financial Statements (Note 27)	
Future developments and strategic priorities	Strategic Report	2-42
Going concern statement	Strategic Report	2-42
Principal risks and risk management	Strategic Report	2-42
Modern Slavery Statement	Strategic Report	2-42
Results	Consolidated Income Statement	79
Section 172 Statement	Strategic Report	2-42
Stakeholder engagement	Strategic Report	2-42
Statement of Directors Responsibilities	Corporate Governance Report	43-70
Viability Statement	Strategic Report	2-42

Annual General Meeting ("AGM")

At the AGM, a separate shareholders' resolution is proposed for each substantive matter. We will publish to shareholders the Company's annual report and financial statements together with the notice of AGM, giving not less than the requisite period of notice. The notice will set out the resolutions the Directors are proposing and explanatory notes for each. At the AGM, Directors' terms of appointment are available for inspection. On the day of the AGM, the Board takes the opportunity to update shareholders on the Company's trading position via an RNS announcement. Normally, the Chairman and each committee chairman are available at the AGM to answer questions put by shareholders present. We expect this year's AGM on 23 June 2021 to be held as normal as it is due to be held after the restrictions relating to COVID-19 are anticipated to be lifted in June. Any changes to this will be communicated on the Company's website.

Branches

The Group does not have any branches outside of the UK.

Change of control

The Company and members of its Group are party to agreements relating to banking, properties, employee share plans and motor vehicle franchises which alter or terminate if the Company or Group Company concerned undergoes a change of control. None is considered significant in terms of its likely impact on the business of the Group as a whole other than the motor vehicle franchises.

Charitable Donations

Charitable donations of £60,000 were made by the Group during the year ended 28 February 2021.

Contracts

In 2018 Biffa plc, of which Mr K Lever is a director and shareholder, acquired SWRnewstar Limited, which provides the Group's waste services. There have been no negotiations with SWRnewstar Limited since this date and Mr Lever will not be involved in any renewal or review of the Group's contract with SWRnewstar Limited. None of the other Directors had an interest in any contract with the Group (other than their service agreement or appointment terms and routine purchases of vehicles for their (or their family's) own use) at any time during the financial year to 28 February 2021.

Directors Report (continued)

Directors Indemnities and Insurance

In line with market practice and the Company's Articles, each Director has the benefit of an ongoing deed of indemnity from the Company, which includes provisions in relation to duties as a Director of the Company or an associated company, qualifying third party indemnity provisions and protection against derivative actions. Copies of these are available for shareholders' inspection at the AGM. Directors' and Officers' insurance has also been established for all Directors and Officers to provide cover for their reasonable actions on behalf of the Group.

Dividend

In light of the substantial Government support received in respect of the trading restrictions imposed in response to COVID-19, the Board did not recommend a final dividend for the year ended 29 February 2020, nor was any dividend proposed for the year ended 28 February 2021. The Board anticipates that the payment of dividends will resume in respect of the financial year ended February 2022, dependent on the financial performance of the Group.

External Auditors

In the case of each person who was a Director of the Group at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the Group and Company's auditors are unaware, and;
- each of the Directors has taken all the steps that they ought to have taken as a Director, as far as is reasonably practical, in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Political Donations

The Group made no political donations and incurred no political expenditure during the year (2020: Nil).

Post Balance Sheet Events

Details of events after 28 February 2021 are disclosed in note 39 of the Financial Statements.

Powers for the issuance or repurchase of Shares

At 1 March 2020, 2,053,821 shares were held by Ocorian Limited ("Trustee"), the trustee of the Company's employee benefit trust. The shares are held for the purpose of the trust and may be used to transfer shares to individuals exercising share options in the Company. During the year ended 28 February 2021, 40,337 shares held by the trust were transferred to individuals pursuant to exercises of options (or sold to satisfy the resulting tax), and 5,273,820 shares were purchased by the trust at an average share price of 37.91p per share. The Trustee waives its right to dividends on any Company shares held in the trust and such holdings are disclosed within 'Treasury Shares' in the Financial Statements. 7,287,304 ordinary shares in the Company were held by the Trustee at 28 February 2021.

The rights and obligations attaching to the Company's ordinary shares are set out in the Articles. The Company is currently authorised to issue up to two-thirds of its current issued share capital pursuant to a resolution passed at its 2020 AGM.

Directors Report (continued)

Share Capital

As at 28 February 2021, the Company's issued share capital comprised a single class: ordinary shares of 10 pence each of which 369,173,981 were in issue. The Articles permit the creation of more than one class of share, but there is currently none other than ordinary shares. Details of the Company's share capital are set out in note 31 to the consolidated financial statement. All issued shares are fully paid.

Shareholders (other than any who, under the Articles or the terms of the shares they hold, are not entitled to receive such notices) have the right to receive notice of, and to attend and to vote at, all general and (if any) applicable class meetings of the Company. A resolution put to the vote at any general or class meeting is decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is properly demanded. At a general meeting, every member present in person has, upon a show of hands, one vote, and on a poll, every member has one vote for every 10 pence nominal amount of share capital of which they are the holder. In the case of joint holders of a share, the vote of the member whose name stands first in the register of members is accepted to the exclusion of any vote tendered by any other joint holder. Unless the Board decides otherwise, a shareholder may not vote at any general or class meeting or exercise any rights in relation to meetings whilst any amount of money relating to his shares remains outstanding. A member is entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote on their behalf at a general meeting. Further details regarding voting can be found in the notes to the notice of the AGM. To be effective, electronic and paper proxy appointments and voting instructions must be received by the Company's registrars not later than 48 hours before a general meeting. The Articles may be obtained from Companies House in the UK or upon application to the Company Secretary. Other than those prescribed by applicable law and the Company's procedures for ensuring compliance with it, there are no specific restrictions on the size of a holding nor on the transfer of shares, which are governed by the Articles and prevailing legislation. The Directors are not aware of any agreement between holders of the Company's shares that may result in restrictions on the transfer of securities or the exercise of voting rights. No person has any special rights of control over the Company's share capital.

By order of the Board

Nicola Loose
Company Secretary
12 May 2021

Statement of Directors Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 parent company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 102 have been followed for the parent company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and parent company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and parent company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Karen Anderson
Chief Financial Officer
12 May 2021

Independent Auditors' Report to the members of Vertu Motors plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Vertu Motors plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 28 February 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 28 February 2021; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- Three full scope audit components have been identified, alongside the company.
- This approach provides coverage of 72% of the Group's revenue.

Key audit matters

- Carrying value of intangible assets including goodwill (Group)
- Accounting for manufacturer bonuses (Group)
- Going concern as a result of COVID-19 (Group and parent)
- Valuation of used inventory (Group)
- Valuation of pension scheme liabilities (Group)
- Carrying value of investments in subsidiaries (parent)

Independent Auditors' Report to the members of Vertu Motors plc (continued)

Our audit approach (continued)

Materiality

- Overall Group materiality: £2,200,000 (2020: £2,400,000) based on 0.09% of revenue.
- Overall Company materiality: £2,090,000 (2020: £2,280,000) based on 1% of total assets (capped for Group materiality).
- Performance materiality: £1,650,000 (Group) and £1,567,500 (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<i>Carrying value of intangible assets including goodwill (Group)</i> The Group has significant goodwill and other intangible balances in respect of acquisitions made across various CGUs. The recoverable amount of the CGU is impacted by various factors, a number of which are outside of Vertu's control, which could affect whether results are in line with expectations. Where this is the case and a CGU has been subject to poor historical performance, there is a risk around the recoverability of goodwill and other intangible assets. There is inherent uncertainty and judgement in forecasting future cash flows and therefore this is a judgemental area of the audit.	To address this risk, we have performed the following: Assessed the Group's budgeting procedures as a basis for value in use calculations; Compared historical performance to historical forecasts to assess accuracy in the budget process; Assessed the appropriateness of CGUs used for Goodwill and other intangible assets; Key inputs are assessed, for example discount rates, inflation and forecast revenues and costs; We engaged with PwC experts to assess the discount rate; and We performed sensitivity analysis on the forecasts, including downside scenarios to assess headroom. We are satisfied with management's conclusion on the carrying value of goodwill and other intangibles.

Independent Auditors' Report to the members of Vertu Motors plc (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Accounting for manufacturer bonuses (Group)</i> The level of manufacturer bonus the Group receives has a significant impact on financial performance. Due to the complex nature of some of these arrangements, there is often judgement required in relation to whether targets have been met at a point in time. As a result, the related income which is recognised on the balance sheet as at the year end is a judgemental part of the audit.	To address this risk we have performed the following: On a sample basis, agreed the manufacturer bonus income through to supporting documentation and agreed the amounts held on the balance sheet at the year end date to supporting documentation such as invoice and subsequent receipt. We are satisfied with the recognition of manufacturer bonus income in the year.
<i>Going concern as a result of COVID-19 (Group and parent)</i> During FY21, the scale and impact of the COVID-19 pandemic on the global economy has had a significant impact. Although the results for the Group have been ahead of expectation, the pandemic has continued the increase the level of uncertainty in the market. Therefore it has been necessary for management to consider the impact that the pandemic has had or may have on the Group's balance sheet, cash flows, liquidity and accordingly its ability to continue as a going concern. In order to conclude that it is appropriate for the financial statements to be drawn up on a going concern basis, management have prepared a detailed "base case" cash flow model and applied various sensitivities in order to model a number of scenarios given the period of uncertainty. Note 1 of the financial statements indicates the challenges posed by COVID-19 pandemic and the impact this has had on the Group's and company's ability to continue as a going concern, along with detail on the key assumptions included in management's modelling and sensitivities calculated. Management have concluded that the Group has adequate resources to meet financial obligations as they fall due and have therefore adopted the going concern basis of accounting in preparing the financial statements.	To address this risk in respect of going concern as a result of COVID-19, we have: Challenged management on the key assumptions included in the scenarios and determined that management's mitigating actions are within their control and bank facilities are in place to support the Group; We have assessed management's forecasts and stress test scenarios including obtaining support for the facilities in place for a period of at least 12 months from the date of signing; We have reviewed the trading results of the previous lockdowns in the financial year and assessed the impact COVID-19 had on these results; and We evaluated management's disclosures in relation to the COVID-19 impact and found them to be in line with the accounting framework. We consider the scenarios to be reasonable and that the preparation of the financial statements on a going concern basis remains appropriate.

Independent Auditors' Report to the members of Vertu Motors plc (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of used inventory (Group)</i> The Group holds significant levels of vehicle inventory. Used vehicle selling prices can vary depending upon a number of factors, and as a result large price fluctuations can be experienced in short periods. Therefore, valuation and provisions in relation to used stock is an area of particular judgement.	To address the risk of valuation on used vehicle inventory we have: Performed detail testing over the used vehicle stock held at year end, relying on the post year end sales and market data on car valuations; Performed analysis on the used vehicle stock to understand history of profits and losses on used car stock, and use this to assess the adequacy of the year end provision, also testing the data in the underlying calculation; and Considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the vehicle inventory provision. We are satisfied based on the procedures performed that the valuation of used vehicle stock was reasonable.
<i>Valuation of pension scheme liabilities (Group)</i> There is inherent judgement in valuing the Group's post-retirement benefit liabilities within the pension scheme. The nature of the calculation means that small movements in key assumptions could have a significant effect on the pension obligations. In addition, factors impacting the pension liability can be outside of management's control.	To address this risk in respect of valuation of pension scheme liabilities, we have: Used our actuarial specialists to review the appropriateness of the assumptions used; Compared key inputs, such as mortality/life expectancy, discount rate and inflation rate to market data; and Considered the adequacy of the Group's disclosure in respect of the sensitivity of the scheme liabilities to changes in key inputs. We concluded that the key inputs used in calculating the pension liability were within an acceptable range when compared with market data.
<i>Carrying value of investments in subsidiaries (parent)</i> The Company has significant investments in respect of acquisitions made across various subsidiaries. The recoverable amount of the subsidiary is impacted by various factors, a number of which are outside of Vertu's control, which could affect whether results are in line with expectations. Where a subsidiary has been subject to poor historical performance, there is a risk around the recoverability of this investment. There is inherent uncertainty and judgement in forecasting future cash flows which are above more recent results, and therefore this is a particularly judgmental area of the audit.	To address this risk, we have done the following: Assessed the Group's budgeting procedures as a basis for value in use calculations; Compared historical performance to historical forecasts to assess accuracy in the budget process; Key inputs are assessed, for example discount rates, inflation and forecast revenues and costs; We engaged with PwC experts to assess the discount rate; and We performed sensitivity analysis on the forecasts, including downside scenarios to assess headroom. We are satisfied with management's conclusion on the carrying value of investments.

Independent Auditors' Report to the members of Vertu Motors plc (continued)

Key audit matters (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Vertu Motors Group has grown organically and through acquisition, and as a result has a number of subsidiary entities which contain geographically dispersed dealership locations. Much of the day to day accounting function is performed at these individual dealerships, with the support of a central Group accounting function. As a result of this structure there are three components which required a full scope audit of their financial information, due to their size and contribution to the financial results of the Group. These are Bristol Street First Investments Limited, Bristol Street Fourth Investments Limited and Albert Farnell Limited. Vertu Motors Plc is also subject to full scope audit of its financial information, due to the separate presentation of these financial statements within this report. The audit work over these components is performed principally from the central Group accounting function, however site visits to all in scope components are carried out as part of our audit procedures, in order to verify the existence of stock, and to carry out testing over sales records.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	<i>Financial statements - Group</i>	<i>Financial statements - Company</i>
Overall materiality	£2,200,000 (2020: £2,400,000).	£2,090,000 (2020: £2,280,000).
How we determined it	0.09% of revenue	1% of total assets (capped for Group materiality)
Rationale for benchmark applied	We applied our professional judgement to determine an amount that was relevant to both revenue and profit before tax, which are measures used to assess the performance and growth objectives of the Group, as well as the scale of the Group's operations.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £1,100,000 and £2,100,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1,650,000 for the Group financial statements and £1,567,500 for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

Independent Auditors' Report to the members of Vertu Motors plc (continued)

Materiality (continued)

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £110,000 (Group audit) (2020: £120,000) and £105,000 (Company audit) (2020: £114,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Challenging management on the key assumptions included in the base case model, along with challenging the scenarios modelled by management.
- Reviewing the sensitivities performed by management and understood the impact this has on the level of headroom on facilities.
- Comparing historical performance to historical forecasts to assess accuracy in the budget process.
- Reviewing the facilities which are in place.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the 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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Independent Auditors' Report to the members of Vertu Motors plc (continued)

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 28 February 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' 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 auditors' 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.

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.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or increase the Group's EBITDA, or through management bias in manipulation of accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud.
- Review of Board minutes.
- Review of legal expenditure in the year to identify potential non-compliance with laws and regulation.

Independent Auditors' Report to the members of Vertu Motors plc (continued)

Responsibilities for the financial statements and the audit (continued)

- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of assets and the impairment of the investment in the company (see key audit matters above).
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and reviewing any high margin revenue transactions.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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 or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle
12 May 2021

Consolidated Income Statement

For the year ended 28 February 2021

		Underlying items 2021	Non- underlying items 2021 (Note 8)	Total 2021	Underlying items 2020	Non- underlying items 2020 (Note 8)	Total 2020
	Note	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	5	2,547,665	-	2,547,665	3,064,530	-	3,064,530
Cost of sales		(2,246,642)	-	(2,246,642)	(2,730,473)	-	(2,730,473)
Gross profit	5	301,023	-	301,023	334,057	-	334,057
Operating expenses	6	(267,240)	(2,153)	(269,393)	(301,878)	(15,706)	(317,584)
Operating profit		33,783	(2,153)	31,630	32,179	(15,706)	16,473
Finance income	11	174	-	174	405	-	405
Finance costs	11	(9,405)	-	(9,405)	(9,561)	-	(9,561)
Profit / (loss) before tax		24,552	(2,153)	22,399	23,023	(15,706)	7,317
Taxation	12	(5,217)	(867)	(6,084)	(4,523)	193	(4,330)
Profit / (loss) for the year attributable to equity holders		19,335	(3,020)	16,315	18,500	(15,513)	2,987
Basic earnings per share (p)	13			4.44			0.81
Diluted earnings per share (p)	13			4.36			0.80

Consolidated Statement of Comprehensive Income

For the year ended 28 February 2021

	Note	2021 £'000	2020 £'000
Profit for the year		16,315	2,987
Other comprehensive (expenses) / income			
Items that will not be reclassified to profit or loss:			
Actuarial (losses) / gains on retirement benefit obligations	30	(2,619)	2,400
Deferred tax relating to actuarial losses / (gains) on retirement benefit obligations	30	498	(408)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges	32	(6)	(468)
Deferred tax relating to cash flow hedges	32	10	80
Other comprehensive (expense) / income for the year, net of tax		(2,117)	1,604
Total comprehensive income for the year attributable to equity holders		14,198	4,591

Consolidated Balance Sheet

As at 28 February 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Goodwill and other indefinite life assets	15	99,192	99,315
Other intangible assets	16	1,948	2,120
Retirement benefit asset	30	6,246	8,867
Property, plant and equipment	18	246,664	229,148
Right-of-use assets	19	81,152	87,013
Total non-current assets		435,202	426,463
Current assets			
Inventories	21	597,391	639,177
Trade and other receivables	23	59,375	71,720
Cash and cash equivalents	24	67,828	40,839
		724,594	751,736
Property assets held for sale	22	1,369	417
Total current assets		725,963	752,153
Total assets		1,161,165	1,178,616
Current liabilities			
Trade and other payables	25	(688,948)	(716,270)
Current tax liabilities		(1,573)	(2,935)
Contract liabilities	29	(12,395)	(10,974)
Borrowings	26	(6,582)	(25,547)
Lease liabilities	19	(14,126)	(14,071)
Total current liabilities		(723,624)	(769,797)
Non-current liabilities			
Borrowings	26	(65,777)	(43,657)
Lease liabilities	19	(76,975)	(82,823)
Derivative financial instruments	27	(497)	(493)
Deferred income tax liabilities	28	(9,180)	(8,179)
Contract liabilities	29	(9,172)	(10,294)
Total non-current liabilities		(161,601)	(145,446)
Total liabilities		(885,225)	(915,243)
Net assets		275,940	263,373
Capital and reserves attributable to equity holders of the Group			
Ordinary share capital	31	36,917	36,917
Share premium	31	124,939	124,939
Other reserve	31	10,645	10,645
Hedging reserve	32	(403)	(407)
Treasury share reserve	31	(2,791)	(803)
Capital redemption reserve	31	2,810	2,810
Retained earnings		103,823	89,272
Total equity		275,940	263,373

These consolidated financial statements on pages 79 to 124 have been approved for issue by the Board of Directors on 12 May 2021 and signed on its behalf by:

Robert Forrester
Chief Executive

Karen Anderson
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 28 February 2021

		2021 £'000	2020 £'000
	Note		
Cash flows from operating activities			
Operating profit		31,630	16,473
Profit on sale of property, plant and equipment	6	(432)	(238)
Profit on lease modification	19	(234)	-
Amortisation of other intangible assets	16	436	595
Depreciation of property, plant and equipment	18	12,333	11,309
Depreciation of right of use asset	19	15,643	14,065
Impairment charges	8	1,452	16,878
Change to fair value of contingent consideration	8	-	(2,500)
Movement in working capital	34	29,640	(23,563)
Share based payments charge		373	619
Cash inflow from operations		90,841	33,638
Tax received		188	362
Tax paid		(6,692)	(5,348)
Finance income received		23	237
Finance costs paid		(9,440)	(9,387)
Net cash inflow from operating activities		74,920	19,502
Cash flows from investing activities			
Acquisition of businesses, net of cash, overdrafts and borrowings acquired	17	(21,489)	(12,398)
Acquisition of freehold and long leasehold land and buildings		(2,713)	(1,421)
Proceeds from disposal of a business		1,698	-
Purchases of intangible assets		(264)	(155)
Purchases of other property, plant and equipment		(11,844)	(14,180)
Proceeds from disposal of property, plant and equipment		972	3,255
Net cash outflow from investing activities		(33,640)	(24,899)
Cash flows from financing activities			
Proceeds from borrowings	33	22,760	2,381
Repayment of borrowings	33	(19,705)	-
Principal elements of lease repayments	19	(15,342)	(13,392)
Purchase of treasury shares		(2,004)	(401)
Repurchase of own shares		-	(2,749)
Dividends paid to equity holders		-	(6,122)
Net cash outflow from financing activities		(14,291)	(20,283)
Net increase / (decrease) in cash and cash equivalents	33	26,989	(25,680)
Cash and cash equivalents at beginning of year		40,839	66,519
Cash and cash equivalents at end of year	24	67,828	40,839

Consolidated Statement of Changes in Equity

For the year ended 28 February 2021

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2020	36,917	124,939	10,645	(407)	(803)	2,810	89,272	263,373
Profit for the year	-	-	-	-	-	-	16,315	16,315
Actuarial losses on retirement benefit obligations	-	-	-	-	-	-	(2,619)	(2,619)
Tax on items taken directly to equity	-	-	-	10	-	-	498	508
Fair value losses	-	-	-	(6)	-	-	-	(6)
Total comprehensive income for the year	-	-	-	4	-	-	14,194	14,198
Issue of treasury shares	-	-	-	-	16	-	(16)	-
Purchase of treasury shares	-	-	-	-	(2,004)	-	-	(2,004)
Share based payments charge	-	-	-	-	-	-	373	373
As at 28 February 2021	36,917	124,939	10,645	(403)	(2,791)	2,810	103,823	275,940

The other reserve is a merger reserve, arising from shares issued as consideration to the former shareholders of acquired companies.

The purchase of treasury shares in the period relates to the acquisition of 5,273,820 shares by Ocorian Limited, the Trustee of Vertu Motors plc's Employee Benefit Trust ("EBT"). The shares were purchased by the Trustee to be held for the purposes of the EBT and may be used to transfer shares to individuals when options are exercised. This could include the Company's Long Term Incentive Plan ("LTIP") or Partnership Share Options ("PSO"), under which each of the executive directors of the Company, the Company's other PDMRs and certain other senior managers are potential participants and is therefore regarded as having a notional interest in these shares.

During the year, 40,337 treasury shares were transferred from the EBT on exercise of vested LTIP options. 7,287,304 shares remain in the EBT at 28 February 2021.

Consolidated Statement of Changes in Equity (continued)

For the year ended 29 February 2020

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2019	37,661	124,939	10,645	(19)	(602)	2,066	92,745	267,435
Profit for the year	-	-	-	-	-	-	2,987	2,987
Actuarial gains on retirement benefit obligations	-	-	-	-	-	-	2,400	2,400
Tax on items taken directly to equity	-	-	-	80	-	-	(408)	(328)
Fair value losses	-	-	-	(468)	-	-	-	(468)
Total comprehensive income for the year	-	-	-	(388)	-	-	4,979	4,591
Sale of treasury shares	-	-	-	-	200	-	(200)	-
Purchase of treasury shares	-	-	-	-	(401)	-	-	(401)
Repurchase of own shares	-	-	-	-	-	-	(2,749)	(2,749)
Cancellation of repurchased shares	(744)	-	-	-	-	744	-	-
Dividend paid	-	-	-	-	-	-	(6,122)	(6,122)
Share based payments charge	-	-	-	-	-	-	619	619
As at 29 February 2020	36,917	124,939	10,645	(407)	(803)	2,810	89,272	263,373

Notes to the Consolidated Financial Statements

1. Accounting Policies

Basis of preparation

Vertu Motors plc is a Public Limited Company which is listed on the Alternative Investment Market (AIM) and is incorporated and domiciled in England. The address of the registered office is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne and Wear, NE11 0XA. The registered number of the Company is 05984855.

The consolidated financial statements of Vertu Motors plc have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ("UK IFRS").

The consolidated financial statements have been prepared on the going concern basis under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value.

In order to prepare the financial statements on the going concern basis, the Directors have considered detailed financial projections for a period of 12 months from the date of signing the financial statements ('Review Period'). These projections are based on the Group's detailed annual business plan for the year ending 28 February 2022 as well as the known financial performance of the Group in the period subsequent to 28 February 2021, projected forward to cover the Review Period. The Directors have considered these financial projections in conjunction with the Group's available facilities, which are outlined in detail in note 26.

The Directors have also considered sensitivity analysis performed in respect of these forecasts to model the impact of a potential further 3 month period of COVID-19 related sales restrictions taking place later in the year ending 28 February 2022, based on assumptions driven by analysis of the actual trends that the Group experienced during the latest restrictions imposed in the year ended 28 February 2021. This analysis did not indicate any issues with the Group's ability to operate within its banking facilities during the Review Period.

Based on the forecast information available and the sensitivity analysis performed as set out above, the Directors believe it is appropriate to prepare these financial statements on the going concern basis.

The consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 131 to 133 of the annual report. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2021 by virtue of s479A of Companies Act 2006. Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2021 by virtue of s394A of Companies Act 2006. In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the parent company Vertu Motors plc has given a statutory guarantee of all the outstanding liabilities as at 28 February 2021 of the subsidiaries listed below, further details of which are provided in note 36.

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2021 by virtue of s479A Companies Act 2006 are:

Albert Farnell Limited	South Hereford Garages Trade Parts LLP
All Car Parts Limited	Tyne Tees Finance Limited
Bristol Street First Investments Limited	Vans Direct Limited
Bristol Street Fourth Investments Limited	Vertu Motors (Chingford) Limited
Grantham Motor Company Limited	Vertu Motors (Continental) Limited
Hughes of Beaconsfield Limited	Vertu Motors (Knaresborough) Limited
Macklin Property Limited	Vertu Motors (Property) Limited
Sigma Holdings Limited	Vertu Motors (Property 2) Limited
South Hereford Garages Limited	Vertu Motors (VMC) Limited

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Basis of preparation (continued)

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2021 by virtue of s394A of Companies Act 2006 are:

Aceparts Limited	International Concessionaires Limited
Best4Vans Limited	K C Motability Solutions Limited
Blacks Autos Limited	Merifield Properties Limited
Blake Holdings Limited	Motor Nation Car Hypermarkets Limited
Boydslaw 103 Limited	National Allparts Limited
Bristol Street (No.1) Limited	Newbolds Garage (Mansfield) Limited
Bristol Street (No.2) Limited	Nottingham TPS LLP
Bristol Street Commercials (Italia) Limited	Peter Blake (Chatsworth) Limited
Bristol Street Fifth Investments Limited	Peter Blake (Clumber) Limited
Bristol Street Fleet Services Limited	Peter Blake Limited
Bristol Street Group Limited	SHG Holdings Limited
Bristol Street Limited	The Taxi Centre Limited
Brookside (1998) Limited	Typocar Limited
BSH Pension Trustee Limited	VanMan Limited
Carsandvansdirect Limited	Vertu Fleet Limited
Compare Click Call Limited	Vertu Motors (AMC) Limited
Dobies (Carlisle) Limited	Vertu Motors (Durham) Limited
Dunfermline Autocentre Limited	Vertu Motors (Finance) Limited
Easy Vehicle Finance Limited	Vertu Motors (Pity Me) Limited
Gordon Lamb Group Limited	Vertu Motors Property 2 Holdings Limited
Gordon Lamb Limited	Vertu Motors (Retail) Limited
Gordon Lamb Holdings Limited	Vertu Ventures Limited
Hillendale Group Limited	Why Pay More For Cars Limited
Hillendale LR Limited	Widnes Car Centre Limited
Horseshoe Vehicle Contracts Limited	Widnes Car Centre (1994) Limited
Hughes Group Holdings Limited	

The preparation of financial statements in conformity with UK IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are set out in note 4.

The Directors consider that the accounting policies set out below are the most appropriate and have been consistently applied.

Standards and interpretations adopted by the Group in the year ended 28 February 2021

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 March 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3

New standards and interpretations issued but not yet effective and not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 28 February 2021 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Leases

The Group adopted IFRS 16 'Leases' for the first time in the year ended 29 February 2020. As the new standard was adopted prospectively, the impact on the Consolidated Income Statement was presented within non-underlying items in the year ended 29 February 2020 to enhance the comparability of the financial results in that year. As the standard has now been adopted for two full financial years, the Consolidated Income Statement for the year ended 29 February 2020 has been restated to present the impact of IFRS 16 'Leases' within underlying items.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Leases (continued)

As a result, underlying operating expenses in the year ended 29 February 2020 have decreased by £3,117,000 (and non-underlying operating expenses have increased by the same value) and underlying finance costs have increased by £3,595,000 (non-underlying finance costs have decreased by the same value).

The Group leases various dealership premises, compounds and vehicles. Rental contracts are typically made for fixed periods of a minimum of 12 months to a maximum of 150 years and may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any incentives receivable,
- Variable lease payments that are based on an index or a rate,
- Amounts expected to be payable by the lessee under residual value guarantees,
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, or
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Vertu Motors plc, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g., term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability,
- Any lease payments made at or before the commencement date, less any lease incentives received,
- Any initial direct costs; and
- Restoration costs.

Payments associated with short-term leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of less than 12 months.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options

Extension and termination options are included in a number of property leases across the Group and are used to maximise flexibility to respond to the changing retail environment in the years ahead. Approximately one fifth of the Group's property leases have the benefit of a tenant break clause.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Vertu Motors plc and its subsidiary undertakings. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date at which control is transferred to the Group and they are excluded from the consolidated financial statements from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including intangible assets not previously recognised by the acquiree) and liabilities (including contingent liabilities) of acquired businesses at fair value. Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the consideration over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Where the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the consideration, the excess or "negative goodwill" is recognised immediately in the Consolidated Income Statement. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of annual impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units.

Each cash generating unit ("CGU") or group of cash generating units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Gains and losses on the disposal of a business component are calculated on a basis which incorporates the carrying amount of goodwill relating to the business sold. Acquisition related costs are expensed to the Consolidated Income Statement as incurred.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Other intangible assets

Intangible assets, when acquired separately from a business combination, comprise computer software and are carried at cost less accumulated amortisation and any impairment losses. Amortisation is provided on a straight-line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is between four and six years.

Intangible assets, for example, franchise relationships, brands and customer relationships acquired as part of a business combination, are capitalised separately from goodwill if the asset is separable and if the fair value can be measured reliably on initial recognition. Such assets are stated at fair value less accumulated amortisation. Amortisation is provided on a straight-line basis over their expected useful lives. Intangible assets with an indefinite useful life, such as franchise relationships, are tested annually for impairment. Other intangible assets arising as part of a business combination are typically allocated a useful life of between 10 and 20 years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. Freehold land is not depreciated. Depreciation is provided at rates calculated to write off the cost of property, plant and equipment less their estimated residual values, on a straight-line basis over their estimated useful lives, as follows:

Freehold buildings	2%
Long leasehold buildings	Shorter of lease term and 50 years
Short leasehold buildings	Lease term (under 25 years)
Franchise standards property improvements	20%
Vehicles and machinery	10% - 20%
Furniture, fittings and equipment	20% - 50%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'operating expenses' in the consolidated income statement, except where amounts are material and are disclosed separately in 'non-underlying items'.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost for parts is determined using the first-in, first-out (FIFO) method. 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 on disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

The timing of recognition of new vehicle inventory as an asset of the Group is dependent on the terms of the purchase which vary by Manufacturer. Some Manufacturers invoice on release from their factory, although the vehicle may not be physically present at a Group location, title has passed and therefore the vehicle is recognised in inventory upon receipt of the invoice. Some Manufacturers operate traditional consignment stock arrangements where unpaid vehicles may be physically present at dealerships however title is retained by the manufacturer. If the vehicle consignment is unsold after a period of time it begins to accrue interest from the manufacturer and at the point interest starts to accrue, the vehicle is recorded as an asset with a corresponding creditor, to reflect the asset and funding element of the transaction. This is in order to record the economic substance of the transaction rather than just the legal form. Other vehicle inventory is recognised upon title passing to the Group, typically on physical receipt.

As part of its normal trading activities the Group has contracted to repurchase, at predetermined values and dates, certain vehicles previously sold. The Group recognises its residual interest in these vehicles through the inclusion of such vehicles within inventory, at the lower of the repurchase price or estimated recoverable value, with a liability equal to the repurchase price within trade payables.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Consolidated Income Statement within operating expenses.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

Trade payables

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

Impairment of financial and non-financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets are impaired.

If there is objective evidence that an impairment loss on loans and receivables at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rates. The amount of the loss is recognised in the Consolidated Income Statement.

At each reporting date, the Group assesses whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where fair value cannot be determined then the recoverable amount will be determined by reference to value in use. Value in use is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows of separately identifiable CGUs are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. In determining fair value less costs to sell, an appropriate valuation model is used.

Impairment losses are recognised in the Consolidated Income Statement in the expense category consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of any amount recoverable. A previously recognised impairment loss is only reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the impairment loss was recognised.

Government grant income

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants received in the year ended 28 February 2021 have been recognised within net operating expenses in the Consolidated Income Statement. Note 9 provides further information on government grants received in the year ended 28 February 2021.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Derivative financial instruments

The Group manages its interest rate risk through hedging instruments. The Group recognises hedging instruments at fair value with any gain or loss on measurement recognised in the Consolidated Income Statement. The Group does not hold or issue derivative financial instruments for speculative purposes.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The only derivative financial instrument held by the Group throughout the year is a cash flow hedge swapping floating for fixed interest rates. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. Any gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Income Statement within finance income or costs.

Amounts accumulated in equity are recycled in the Consolidated Income Statement in the years when the hedged item affects profit and loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the Consolidated Income Statement within 'finance costs'. The fair values of derivative financial instruments used for hedging purposes are disclosed in note 27.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported within equity is immediately transferred to the Consolidated Income Statement within finance income or costs.

Taxation

Current tax

Current income tax assets and liabilities are measured at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes. Deferred tax liabilities are recognised for all temporary differences, except:

- a. where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- b. in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- a. where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Taxation (continued)

Deferred tax (continued)

- b. in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is calculated using the enacted or substantively enacted rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items credited or charged direct to equity in which case the deferred tax is also credited or charged to equity.

Revenue

Revenue for the sale of goods and services is measured at the fair value of consideration receivable, net of value added tax and any discounts. It excludes sales related taxes and intra group transactions. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Sale of motor vehicles, parts and aftersales services

Sales of vehicles and parts are recognised when the customer has control of the goods. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically despatched or when a service has been undertaken. Manufacturer incentives (e.g. free service when purchasing a vehicle) do not impact the Group as the legal obligation lies with the manufacturer.

Sale of warranty products

Revenue is recognised in line with the performance obligation, i.e. the period in which the customer can exercise their rights under the warranty, and therefore recognised over the life of the warranty.

Finance commissions

Finance commissions are received for the arrangement of vehicle financing and related insurance products where the Group acts as agent on behalf of a principal. Commissions are based on agreed rates and income is recognised when the finance and/or insurance package that the customer has entered into commences. Typically, this is on delivery of the vehicle. Where the commission received relates to a specific vehicle sale, it is recognised within revenue. Where the commission received relates to a central rebate, it is recognised within cost of sales.

Manufacturer rebates

Vehicle specific rebates from Manufacturers are recognised when it is probable that the economic benefit will flow to the Group and the value can be reliably measured. In practice, this means that vehicle specific Manufacturer rebates are recognised when the vehicle to which the rebate relates, has been invoiced and physically despatched. In the case of non-vehicle specific related rebates from suppliers, these are recognised in the Consolidated Income Statement upon achievement of the specific agreed supplier criteria. Manufacturer rebates are recognised within cost of sales.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Revenue (continued)

Disaggregation of revenue:

The table below shows revenue disaggregated by the Group's main product/service lines:

	2021 £'000	2020 £'000
Aftersales	221,179	258,104
Used cars	1,008,301	1,235,381
New car retail & Motability	739,748	862,517
New fleet & commercial	578,437	708,528
Total	2,547,665	3,064,530

Timing of revenue recognition:

Recognised at a point in time	2,540,648	3,057,126
Recognised over time	7,017	7,404
Total	2,547,665	3,064,530

All of the Group's revenue was generated in the United Kingdom.

Contract liabilities

Where the Group receives consideration for a sale in advance of the performance obligation being satisfied, the amount received is held on the balance sheet within contract liabilities and released to the income statement in line with the relevant revenue recognition policy.

Pension costs

The Group operates a trust based defined benefit pension scheme, "Bristol Street Pension Scheme", which has three defined benefit sections which were closed to new entrants and future accrual on 31 May 2003, with another section closed to new entrants in July 2003 and future accrual in October 2013.

Typically, defined benefit schemes define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The assets of the defined benefit scheme are held separately from the assets of the Group. The asset or liability recognised in the balance sheet in respect of the defined benefit pension scheme is the fair value of plan assets less the present value of the defined benefit obligations at the balance sheet date. Defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Differences between the actual and expected return on assets, changes in retirement benefit obligations due to experience and changes in actuarial assumptions are included in the Statement of Comprehensive Income in full for the year in which they arise.

A Group personal pension arrangement under which the Group pays fixed contributions into an individual's funds, is also in place. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior years. Contributions into this scheme are charged to the Consolidated Income Statement in the year in which they are payable.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Share based payments

The Group allows employees to acquire shares of the Company through share option schemes. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The Group operates a number of equity-settled, share-based compensation plans. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the Consolidated Income Statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Non-underlying items

Non-underlying items are presented separately in the Consolidated Income Statement to enhance comparability of trading performance between periods. Details of the items included as non-underlying are provided in note 8.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"), Robert Forrester, Chief Executive Officer, who is responsible for allocating resources and assessing performance of the operating segment.

Share capital

Ordinary shares are classed as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividend distribution

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

2. Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt market prices and interest rates. The Group's treasury management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group used derivative financial instruments to reduce exposure to interest rate movements on drawn debt. The outstanding derivative instruments held by the Group at the balance sheet date are set out in note 27.

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide principles on interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity.

The Board adopts an ongoing process for identifying, evaluating and managing the significant risks faced by the Group.

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management (continued)

Market Risk – Cash Flow Interest Rate Risk

The Group's interest rate risk arises from long-term borrowings, which are issued at variable rates that expose the Group to cash flow interest rate risk. The Group's borrowings are denominated in sterling.

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. The Group has performed calculations to analyse its interest rate exposure taking into account refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent major interest-bearing positions.

Credit Risk

Credit risk arises from cash and deposits with banks as well as credit exposures to customers. Individual customer risk limits are set based on external credit reference agency ratings and the utilisation of these credit limits is regularly monitored. Further disclosure on credit exposure is given in note 23.

Liquidity Risk

Ultimate responsibility for liquidity risk rests with the Board of Directors, 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. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Disclosed within note 26 are the undrawn banking facilities that the Group has at its disposal.

The table below analyses the Group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. All borrowings are denominated in sterling.

	Less than one year £'000	Between two and five years £'000	Over five years £'000	Total £'000
Bank borrowings	812	55,725	-	56,537
Mortgage	997	3,799	11,408	16,204
Other borrowings	5,948	-	-	5,948
Lease liabilities	14,126	76,975	-	91,101
Contract liabilities	12,395	9,172	-	21,567
Trade and other payables (excluding social security and other taxes)	682,711	-	-	682,711
At 28 February 2021	716,989	145,671	11,408	874,068

	Less than one year £'000	Between two and five years £'000	Over five years £'000	Total £'000
Bank borrowings	904	45,908	-	46,812
Other borrowings	25,547	-	-	25,547
Lease liabilities	14,071	82,823	-	96,894
Contract liabilities	10,974	10,294	-	21,268
Trade and other payables (excluding social security and other taxes)	709,603	-	-	709,603
At 29 February 2020	761,099	139,025	-	900,124

Other borrowings represent amounts repayable under used car stocking facilities.

Notes to the Consolidated Financial Statements (continued)

3. Capital risk management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group must ensure that sufficient capital resources are available for working capital requirements and meeting principal and interest payment obligations as they fall due.

Consistent with others in this industry, the Group monitors capital on the basis of the gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the Consolidated Balance Sheet) less cash and cash equivalents. Total capital is calculated as total shareholders' equity.

The Group had net debt of £95,632,000 (including £91,101,000 lease liabilities) at 28 February 2021 as disclosed in note 33 to the consolidated financial statements (2020: net debt of £125,259,000 including £96,894,000 lease liabilities).

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are considered to approximate their fair values. The fair value of long-term borrowings approximates to the carrying value reported in the balance sheet, as the majority are variable rate borrowings.

4. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates, will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

Valuation of goodwill

The valuation of goodwill acquired is performed in accordance with IFRS 3 and is therefore based on provisional values ascribed within the measurement period subsequent to acquisition. Management judgement has been used in determining the existence and value of separately identifiable assets acquired as part of the business combination.

Valuation of other intangible assets

When a business combination takes place, the Group is required to assess whether there are any additional intangible assets arising separately from goodwill. Management judgement is required to determine whether an intangible asset can be separately identified, what fair value should be ascribed to the asset and its attributable useful life.

Impairment of goodwill and other indefinite life assets

The Group tests annually, or whenever events or changes in circumstances occur, to determine whether goodwill or other indefinite life assets have suffered any impairment, in accordance with the accounting policy stated above and in note 15. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the key assumptions used for the impairment testing for the year ended 28 February 2021, as well as the results of sensitivity analysis performed, are provided in note 15.

Estimated useful life of intangibles, property, plant and equipment and impairment testing

The Group estimates the useful life and residual values of intangible assets, property, plant and equipment and reviews these estimates at each financial year end. The Group also tests for impairment when a trigger event occurs, or annually, as appropriate.

Notes to the Consolidated Financial Statements (continued)

4. Critical accounting estimates and judgements (continued)

Pension benefits

During the year ended 28 February 2021, the Group operated one defined benefit pension scheme, the "Bristol Street Pension Scheme". The obligations under this defined benefit scheme are recognised in the Consolidated Balance Sheet and represent the present value of the obligations calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, annual rates of return and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of the assumptions used for the scheme in the year ended 28 February 2021 are provided in note 30.

Revenue recognition

The Group's main product/service lines are the sale of motor vehicles, parts and aftersales services. The Group operates an income recognition policy that ensures that revenue is recognised in line with satisfaction of the performance obligation, as set out in note 1.

Given the complexity of the initial sale of a vehicle which can represent several bundled products, judgement is involved in isolating the component parts of the transaction and ensuring revenue is recognised appropriately.

5. Segmental information

The Group adopts IFRS 8 "Operating Segments", which determines and presents operating segments based on information provided to the Group's Chief Operating Decision Maker ("CODM"), Robert Forrester, Chief Executive Officer. The CODM receives information about the Group overall and therefore there is one operating segment.

The CODM assesses the performance of the operating segment based on a measure of both revenue and gross margin. However, to increase transparency, the Group has included below an additional voluntary disclosure analysing revenue and gross margin within the reportable segment.

Year ended 28 February 2021	Revenue £'m	Revenue Mix %	Gross Profit £'m	Gross Profit Mix %	Gross Margin ¹ %
Aftersales	221.2	8.7	129.6	43.1	49.3
Used cars	1,008.4	39.6	93.9	31.2	9.3
New car retail and Motability	739.7	29.0	54.3	18.0	7.3
New fleet and commercial	578.4	22.7	23.2	7.7	4.0
	2,547.7	100.0	301.0	100.0	11.8

Year ended 29 February 2020	Revenue £'m	Revenue Mix %	Gross Profit £'m	Gross Profit Mix %	Gross Margin ¹ %
Aftersales	258.1	8.4	143.5	43.0	46.9
Used cars	1,235.4	40.3	102.1	30.6	8.3
New car retail and Motability	862.5	28.1	62.7	18.8	7.3
New fleet and commercial	708.5	23.2	25.8	7.6	3.6
	3,064.5	100.0	334.1	100.0	10.9

¹Margin in aftersales expressed on internal and external turnover. A significant part of the role of the service department is to support the vehicle sales department and therefore this is considered to be an important measure for the purpose of monitoring the departmental performance

Notes to the Consolidated Financial Statements (continued)

6. Operating expenses

	2021 £'000	2020 £'000
Wages and salaries excluding share based payments charge (note 9)	150,542	173,911
Depreciation on property, plant and equipment (note 18)	12,333	11,309
Depreciation on right-of-use assets (note 19)	15,643	14,065
Profit on disposal of property, plant and equipment	(432)	(238)
Profit on lease modification (note 19)	(234)	-
Auditors' remuneration (note 7)	260	240
Rental income	(218)	(185)
Share based payments charge	265	733
Amortisation (note 16)	436	595
Impairment charges (notes 15 & 18)	1,452	16,878
Change to fair value of contingent consideration	-	(2,500)
Other expenses	89,346	102,776
	269,393	317,584

7. Auditors' remuneration

	2021 £'000	2020 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	245	231
Fees payable to the Company's auditors and its associates for other services:		
- audit of Group's subsidiaries	5	5
- Other services	10	4
	260	240

8. Non-underlying items

	2021 £'000	2020 £'000
Impairment charges (notes 15 & 18)	(1,452)	(16,878)
Change to fair value of contingent consideration	-	2,500
Net impairment charges ¹	(1,452)	(14,378)
Share based payments charge (note 31)	(265)	(733)
Amortisation (note 16)	(436)	(595)
Non-underlying loss before tax	(2,153)	(15,706)

¹£2,500,000 of the impairment charges in the year ended 29 February 2020 related to Vans Direct Limited. Contingent consideration for a corresponding amount was also released.

Non-underlying items are presented separately in the Consolidated Income Statement to enhance comparability of trading performance between periods.

Details of current and deferred tax arising in respect of non-underlying items is shown in note 12.

Notes to the Consolidated Financial Statements (continued)

9. Employee benefit expense

	2021 £'000	2020 £'000
Wages and salaries	154,268	176,421
Social security costs	17,350	19,013
Pension costs – defined contribution plans	4,688	4,733
	176,306	200,167
Share based payments charge (note 31)	265	733
	176,571	200,900

Employee benefit expense included in:

	2021 £'000	2020 £'000
Operating expenses	150,542	173,911
Cost of sales	25,764	26,256
Share based payments charge (note 31)	265	733
	176,571	200,900

The above employee benefit expense for the year ended 28 February 2021 includes £27,845,000 of Government grant income in respect of the Coronavirus Job Retention Scheme.

Details of the remuneration of the Directors who served during the year from 1 March 2020 to 28 February 2021 and the year from 1 March 2019 to 29 February 2020 are given in the Directors' Remuneration Report on pages 62 to 66.

10. Average monthly number of people employed (including Directors)

	2021 Number	2020 Number
Sales and distribution	1,941	2,055
Service, parts and accident repair centres	2,656	2,235
Administration	1,126	1,413
	5,723	5,703

11. Finance income and costs

	2021 £'000	2020 £'000
Interest on short-term bank deposits	24	237
Net finance income relating to defined benefit pension scheme (note 30)	150	168
Finance income	174	405
Bank loans and overdrafts	(1,874)	(1,418)
Vehicle stocking interest	(3,899)	(4,548)
Lease liability interest (note 19)	(3,632)	(3,595)
Finance costs	(9,405)	(9,561)

12. Taxation

	2021 £'000	2020 £'000
Current tax		
Current tax charge	5,279	4,495
Adjustment in respect of prior years	(137)	(307)
Total current tax	5,142	4,188
Deferred tax		
Origination and reversal of temporary differences	76	181
Adjustment in respect of prior years	(95)	(21)
Rate differences	961	(18)
Total deferred tax (note 28)	942	142
Income tax expense	6,084	4,330

Notes to the Consolidated Financial Statements (continued)

12. Taxation (continued)

	2021 £'000	2020 £'000
Profit before taxation	22,399	7,317
Profit before taxation multiplied by the rate of corporation tax in the UK of 19% (2020: 19%)	4,256	1,390
Non-qualifying depreciation	560	944
Non-deductible expenses	305	68
Change to fair value of contingent consideration	-	(475)
Goodwill impairment	276	2,770
Effect on deferred tax balances due to rate change	961	(18)
IFRS 16 adjustment	31	91
Property adjustment	(30)	10
Permanent benefits	(43)	(122)
Adjustments in respect of prior years	(232)	(328)
Total tax expense included in the income statement	6,084	4,330

A summary of the Group's tax expense in respect of underlying and non-underlying items is as follows:

	Underlying items 2021 £'000	Non- underlying items 2021 £'000	Total 2021 £'000	Underlying items 2020 £'000	Non- underlying items 2020 £'000	Total 2020 £'000
Profit / (loss) before tax	24,552	(2,153)	22,399	23,023	(15,706)	7,317
Taxation	(5,217)	(867)	(6,084)	(4,523)	193	(4,330)
Profit / (loss) after tax	19,335	(3,020)	16,315	18,500	(15,513)	2,987
Effective tax rate	21.25%		27.17%	19.65%		59.18%

The Group's underlying effective rate of tax is 21.25% (2020: 19.65%) which is higher than the standard rate of corporation tax in the UK as a result of the impact of non-qualifying depreciation and non-deductible expenses in the year ended 28 February 2021.

In March 2020 it was announced that the reduction in the UK rate of corporation tax to 17% would not occur and the rate would be held at 19%. As this was substantively enacted during the year ended 28 February 2021, the Group's deferred tax obligations have been remeasured at 19%. This resulted in a deferred tax charge of £961,000 being incurred in the year ended 28 February 2021 which has been presented within non-underlying items as a result of this being driven by a non-recurring legislative change taking place in the year.

On 3 March 2021, the Chancellor announced that the headline UK corporation tax rate will rise to 25% from 1 April 2023. As this increase had not been enacted by the balance sheet date, the further revaluation of the Group's deferred tax obligations from 19% to 25% will be applied in the financial year ending 28 February 2022 and is expected to increase the Group's tax charge by £2.9m in that year.

The overall effective tax rate of 27.17% includes tax on non-underlying items (2020: 59.18%).

13. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares during the year or the diluted weighted average number of ordinary shares in issue in the year.

For the purposes of calculating the weighted average shares in issue, shares held by the Group's employee benefit trust are excluded as rights to dividends on such shares have been waived. Details of the shares held in the Group's employee benefit trust are provided on page 68.

The Group only has one category of potentially dilutive ordinary shares, which are share options. A calculation has been undertaken to determine the number of shares that could have been acquired at fair value (determined at the average annual market price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding share options.

Notes to the Consolidated Financial Statements (continued)

13. Earnings per share (continued)

The number of shares calculated, as set out above, is compared with the number of shares that would have been issued assuming the exercise of the share options.

Underlying earnings per share is calculated by dividing underlying earnings attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year.

	2021 £'000	2020 £'000
Profit attributable to equity shareholders	16,315	2,987
Non-underlying loss after tax (note 12)	3,020	15,513
Underlying earnings attributable to equity shareholders	19,335	18,500
Weighted average number of shares in issue ('000s)	367,092	370,470
Potentially dilutive shares ('000s)	7,134	4,348
Diluted weighted average number of shares in issue ('000s)	374,226	374,818
Basic earnings per share	4.44p	0.81p
Diluted earnings per share	4.36p	0.80p
Basic underlying earnings per share	5.27p	4.99p
Diluted underlying earnings per share	5.17p	4.94p

14. Dividends per share

As a result of the substantial amounts of Government support received and the need to protect the Group's liquidity in the year ended 28 February 2021, the Board did not declare a final dividend for the year ended 29 February 2020, nor any dividend for the financial year ended 28 February 2021. Dividends of £6,122,000 were paid in the year ended 29 February 2020, representing 1.65p per share.

15. Goodwill and other indefinite life assets

2021	Goodwill £'000	Franchise relationships £'000	Total £'000
Cost			
At 1 March 2020	87,096	27,087	114,183
Acquisitions (note 17)	834	495	1,329
At 28 February 2021	87,930	27,582	115,512
Accumulated impairment charges			
At 1 March 2020	14,868	-	14,868
Impairment charge	1,452	-	1,452
At 28 February 2021	16,320	-	16,320
Net Book Value			
At 28 February 2021	71,610	27,582	99,192
At 29 February 2020	72,228	27,087	99,315

Notes to the Consolidated Financial Statements (continued)

15. Goodwill and other indefinite life assets (continued)

2020	Goodwill £'000	Franchise relationships £'000	Total £'000
Cost			
At 1 March 2019	85,982	26,410	112,392
Acquisitions	1,114	677	1,791
At 29 February 2020	87,096	27,087	114,183
Accumulated impairment charges			
At 1 March 2019	114	-	114
Impairment charge	14,754	-	14,754
At 29 February 2020	14,868	-	14,868
Net Book Value			
At 29 February 2020	72,228	27,087	99,315
At 28 February 2019	85,868	26,410	112,278

Impairment

In accordance with IAS 36, 'Impairment of Assets', the Group tests the following assets for impairment annually:

- Goodwill and other indefinite life assets
- Other assets where there is any indication that the relevant asset may be impaired

In the years ended 28 February 2021 and 29 February 2020, the acquired goodwill and other indefinite life assets were tested for impairment.

For the purposes of impairment testing of goodwill and other indefinite life assets, the Directors recognise the Group's Cash Generating Units ("CGU"s) to be connected groupings of dealerships acquired together.

A summary of the goodwill purchased is presented below:

	2021 £'000	2020 £'000
Bristol Street Group Limited	13,860	13,860
Albert Farnell Limited	13,279	13,279
Hillendale Group Limited	5,159	5,159
SHG Holdings Limited	7,842	7,842
Bury Land Rover	4,415	4,415
Sigma Holdings Limited and Hughes Group Limited	5,874	5,874
Gordon Lamb Group Limited	5,754	5,754
Vans Direct Limited	4,475	4,475
Leeds, Huddersfield, Harrogate and Skipton Volkswagen	1,114	1,114
Other acquisitions	9,838	10,456
	71,610	72,228

A summary of franchise relationships acquired is presented below:

	2021 £'000	2020 £'000
Albert Farnell Limited	7,373	7,373
Hillendale Group Limited	1,749	1,749
Bury Land Rover	2,595	2,595
SHG Holdings Limited	1,497	1,497
Sigma Holdings Limited and Hughes Group Limited	9,989	9,989
Gordon Lamb Group Limited	3,207	3,207
Leeds, Huddersfield, Harrogate and Skipton Volkswagen	677	677
Sunderland, Durham, Teesside, Malton and York BMW MINI	495	-
	27,582	27,087

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections to perpetuity.

Notes to the Consolidated Financial Statements (continued)

15. Goodwill and other indefinite life assets (continued)

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to gross profits and direct costs during the year:

- Management estimates discount rates using pre-tax rates that reflect current market assessments and the time value of money and the risks specific to the CGUs.
- Growth rates are based upon industry forecasts and the past performance of the CGU.
- Changes in gross profits and direct costs are based on past practices and expectations of future changes in the market.

Annual growth rates typically between 0% and 3% are assumed for years three to five depending on the CGU, after which a growth rate of 0% is assumed to perpetuity. Cash flows into perpetuity have been used to reflect the long-term and open-ended nature of the Group's business model. A risk adjusted pre-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 8% (2020: 8%) is applied.

As a consequence of the Group's decision to restructure its sales operations in an outlet in Dunfermline during the year ending 28 February 2022, the resultant calculations showed an impairment charge of £1,452,000 in respect of the previous acquisition of Boydslaw 103 Limited, should be incurred. This charge has been included in non-underlying operating expenses.

Sensitivity analysis has been performed on the value in use calculations based on three potential scenarios with the following results:

- If COVID-19 restrictions were to force further closures of non-essential retail for a further 3 month period in the year ended 28 February 2022 on the same terms as the restrictions seen between November 2020 and April 2021, it is not expected to create an additional impairment charge.
- If the growth rate in years three to five is reduced to -10%, an additional impairment charge in respect of goodwill and other indefinite life assets of £1.8m would arise.
- If the pre-tax WACC was increased to 12%, an additional impairment charge in respect of goodwill and other indefinite life assets of £3.1m would arise.

16. Other intangible assets

2021	Software costs £'000	Brand £'000	Customer relationships £'000	Total £'000
Cost				
At 1 March 2020	2,386	541	1,985	4,912
Additions	264	-	-	264
Disposals	(2)	-	-	(2)
At 28 February 2021	2,648	541	1,985	5,174
Accumulated amortisation				
At 1 March 2020	1,955	54	783	2,792
Charge for the year	242	54	140	436
Disposals	(2)	-	-	(2)
At 28 February 2021	2,195	108	923	3,226
Net book value at 28 February 2021	453	433	1,062	1,948
Net book value at 29 February 2020	431	487	1,202	2,120

Notes to the Consolidated Financial Statements (continued)

16. Other intangible assets (continued)

2020	Software costs £'000	Brand £'000	Customer relationships £'000	Total £'000
Cost				
At 1 March 2019	2,270	541	1,985	4,796
Additions	116	-	-	116
At 29 February 2020	2,386	541	1,985	4,912
Accumulated amortisation				
At 1 March 2019	1,599	-	598	2,197
Charge for the year	356	54	185	595
At 29 February 2020	1,955	54	783	2,792
Net book value at 29 February 2020	431	487	1,202	2,120
Net book value at 28 February 2019	671	541	1,387	2,599

17. Business combinations

Acquisitions

a) Acquisition of Nottingham Kia

On 1 October 2020, the Group acquired the trade and assets of Nottingham Kia from Sandiccliffe Limited. The consideration payable on completion amounted to £1,904,000 and was settled from the Group's existing cash resources.

Details of the fair value of the net assets acquired and goodwill arising are as follows:

	Fair Value £'000
Property, plant and equipment	12
Inventories	1,804
Trade and other receivables	35
Trade and other payables	(21)
Net assets acquired	1,830
Goodwill	74
Consideration	1,904

Acquisition related costs (included in the consolidated income statement for the year ended 28 February 2021) totalled £11,000 in respect of this acquisition.

The goodwill arising on acquisition is attributable to the anticipated profitability of the distribution of vehicles through the acquired dealership.

b) Acquisition of BMW and MINI

On 6 December 2020, the Group acquired the business and assets of a market area of 12 sales outlets located in York, Sunderland, Teesside, Durham and Malton. These five locations each represent the BMW and MINI franchises, in addition to a BMW Motorrad motorcycle operation in Sunderland and a used car operation located in York. The Business was acquired from The Cooper Group Limited, part of Inchcape plc for estimated total consideration of £19,585,000. The consideration has been funded with a combination of a new £12,760,000 20-year mortgage facility from BMW Financial Services, secured on the acquired freehold and long leasehold dealership properties at a fixed interest rate of 2.9% for the first 5 years, together with a payment from the Group's existing cash resources.

Notes to the Consolidated Financial Statements (continued)

17. Business combinations (continued)

Acquisitions (continued)

b) Acquisition of BMW and MINI (continued)

Details of the fair value of the estimated net assets acquired and goodwill arising are as follows:

	Fair Value £'000
Other indefinite life assets	495
Property, plant and equipment	17,521
Right-of-use asset	6,725
Inventories	21,887
Trade and other receivables	107
Trade and other payables	(20,618)
Lease liabilities	(6,725)
Deferred tax	(567)
Net assets acquired	18,825
Goodwill	760
Consideration	19,585
Settled by:	
Mortgage funding	12,760
Existing cash resources	6,825
	19,585

Acquisition related costs (included in the consolidated income statement for the year ended 28 February 2021) totalled £423,000 in respect of this acquisition.

c) Summary of acquisitions' cash consideration

	Total £'000
Nottingham Kia	1,904
BMW and MINI	19,585
Cash outflow on acquisition of businesses	21,489

d) Summary of the fair value of net assets acquired

	Nottingham Kia £'000	BMW and MINI £'000	Total £'000
Other intangible assets	-	495	495
Property, plant and equipment	12	17,521	17,533
Right-of-use asset	-	6,725	6,725
Inventories	1,804	21,887	23,691
Trade and other receivables	35	107	142
Trade and other payables	(21)	(20,618)	(20,639)
Lease liabilities	-	(6,725)	(6,725)
Deferred tax	-	(567)	(567)
Net assets acquired	1,830	18,825	20,655

Notes to the Consolidated Financial Statements (continued)

17. Business combinations (continued)

Disposals

On 30 November 2020, the Group disposed of its ancillary wheelchair accessible vehicle business, Versa, to Gowrings Mobility. Consideration of £1,698,000 was received in cash on completion.

Details of the fair value of net assets disposed of are as follows:

	Fair Value £'000
Property, plant and equipment	27
Inventories	1,885
Trade and other receivables	16
Trade and other payables	(230)
Cash inflow on disposal of businesses	1,698

Disposal related costs (included in the consolidated income statement for the year ended 28 February 2021) totalled £24,000 in respect of this disposal.

18. Property, plant and equipment

2021

	Freehold and long leasehold land and buildings ¹ £'000	Short leasehold land and buildings ¹ £'000	Vehicles and machinery £'000	Furniture, fittings and equipment £'000	Total £'000
Cost					
At 1 March 2020	243,100	5,363	12,537	19,733	280,733
Acquisitions (note 17)	16,803	-	371	359	17,533
Additions	8,909	487	1,535	2,905	13,836
Transfer to assets held for resale (note 22)	(1,630)	-	-	-	(1,630)
Reclassifications	(1,190)	1,190	-	-	-
Disposals	(1,241)	(1,086)	(687)	(834)	(3,848)
At 28 February 2021	264,751	5,954	13,756	22,163	306,624
Accumulated depreciation and impairment					
At 1 March 2020	31,350	3,243	6,313	10,679	51,585
Depreciation charge	5,726	727	2,190	3,690	12,333
Transfer to assets held for resale (note 22)	(261)	-	-	-	(261)
Disposals	(1,232)	(1,081)	(616)	(768)	(3,697)
At 28 February 2021	35,583	2,889	7,887	13,601	59,960
Net Book Value					
At 28 February 2021	229,168	3,065	5,869	8,562	246,664
At 29 February 2020	211,750	2,120	6,224	9,054	229,148

¹ Includes leasehold improvements and franchise standards property improvements.

Depreciation expense of £12,333,000 has been charged in operating expenses (note 6).

In addition to the floating security provided for the Group's bank borrowings, specific fixed charges over freehold land and buildings with a cost of £10,900,000 (2020: £10,900,000) have been granted to manufacturer partners as security against consignment stocking lines and £15,950,000 in respect of the BMW Financial Services mortgage entered into during the year.

Notes to the Consolidated Financial Statements (continued)

18. Property, plant and equipment (continued)

2020

	Freehold and long leasehold land and buildings¹ £'000	Short leasehold land and buildings¹ £'000	Vehicles and machinery £'000	Furniture, fittings and equipment £'000	Total £'000
Cost					
At 1 March 2019	232,202	5,378	10,436	16,498	264,514
Acquisitions	3,945	-	514	247	4,706
Additions	9,084	84	2,351	3,658	15,177
Disposals	(1,712)	(23)	(713)	(721)	(3,169)
Reclassifications	76	(76)	(51)	51	-
Transfers to assets held for sale	(495)	-	-	-	(495)
At 29 February 2020	243,100	5,363	12,537	19,733	280,733
Accumulated depreciation and impairment					
At 1 March 2019	24,457	2,667	4,905	7,667	39,696
Depreciation charge	5,012	641	1,988	3,668	11,309
Disposals	(228)	(2)	(565)	(671)	(1,466)
Reclassifications	63	(63)	(15)	15	-
Impairment	2,124	-	-	-	2,124
Transfer to assets held for sale	(78)	-	-	-	(78)
At 29 February 2020	31,350	3,243	6,313	10,679	51,585
Net Book Value					
At 29 February 2020	211,750	2,120	6,224	9,054	229,148
At 28 February 2019	207,745	2,711	5,531	8,831	224,818

¹ Includes leasehold improvements and franchise standards property improvements.

19. Leases

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2021 £'000	2020 £'000
Right-of-use assets		
Property	76,213	80,801
Vehicles	4,939	6,212
	81,152	87,013
Lease liabilities		
Current	(14,126)	(14,071)
Non-current	(76,975)	(82,823)
	(91,101)	(96,894)

Additions to the right-of-use assets and lease liabilities during the year ended 28 February 2021 were £12,098,000 (2020: £22,325,000).

During the year ended 28 February 2021, right-of-use assets with a net book value of £2,315,000 were disposed of as a result of assignment, settlement or modification of various leases. The corresponding lease liability disposed of was £2,549,000 generating a £234,000 profit recognised in the Consolidated Income Statement.

Notes to the Consolidated Financial Statements (continued)

19. Leases (continued)

Amounts recognised in the Income Statement

The Income Statement shows the following amounts relating to leases:

	2021 £'000	2020 £'000
Included in operating expenses		
Depreciation charge in respect of right-of-use assets:		
Property	10,336	8,704
Vehicles	5,307	5,361
	<u>15,643</u>	<u>14,065</u>
 Profit on lease modification	 (234)	 -
Included in finance costs		
Interest expense	<u>3,632</u>	<u>3,595</u>

The total cash outflow in respect of lease payments in the year ended 28 February 2021 was £18,974,000, of which £3,632,000 related to interest on lease liabilities (2020: £16,987,000 including £3,595,000 interest on lease liabilities).

20. Subsidiary undertakings

A list of subsidiary undertakings (ordinary shares 100% owned and incorporated within the United Kingdom), as at 28 February 2021 and 29 February 2020 is given in note 7 of the Vertu Motors plc company only financial statements (pages 131 to 133).

21. Inventories

	2021 £'000	2020 £'000
New vehicle stock	438,045	475,427
Used vehicle stock	121,177	121,252
Demonstrator and courtesy vehicles	25,984	29,457
Parts and sundry stocks	12,185	13,041
	<u>597,391</u>	<u>639,177</u>

The total value of new vehicle stock is comprised of the following:

	2021 £'000	2020 £'000
Interest bearing consignment stock	59,327	51,849
Stock invoiced not yet paid held by Manufacturers to the order of the Group	321,337	366,513
Other new vehicle stock	57,381	57,065
	<u>438,045</u>	<u>475,427</u>

A corresponding liability is held in trade payables in respect of stock invoiced not yet paid held by Manufacturers to the order of the Group and interest bearing consignment stock. The cost of inventories recognised as expense and included within 'cost of sales' amounted to £2,314,890,000 (2020: £2,815,187,000).

Notes to the Consolidated Financial Statements (continued)

22. Property assets held for resale

	2021 £'000	2020 £'000
At beginning of year	417	1,324
Transfers in from freehold property (note 18)	1,369	417
Property sold during the year	(417)	(1,324)
At end of year	1,369	417

Freehold property transferred in to assets held for resale during the year include:

- A former SEAT dealership in Darlington, following the relocation of the Group's SEAT business to a larger premises adjacent to the Group's Nissan and Skoda businesses in Darlington.
- A Volkswagen dealership in Whitchurch which was closed on 26 April 2021 with the resultant surplus property sold on 7 May 2021. More information is given in note 39.
- A former bodyshop premises in Sunderland after the Group combined the operations of this business with the bodyshop located at the Group's BMW dealership in Sunderland, acquired during the year ended 28 February 2021.

The property sold during the year relates to a freehold property in Retford which was previously a Honda dealership operated by the Group. The property was sold on 21 August 2020 realising cash proceeds of £840,000 and a profit on disposal of £423,000 included in underlying operating expenses.

23. Trade and other receivables

	2021 £'000	2020 £'000
Trade receivables	43,980	52,136
Less provision for impairment of trade receivables	(1,967)	(1,557)
Trade receivables (net)	42,013	50,579
Other receivables	10,973	10,197
Prepayments and accrued income	6,389	10,944
	59,375	71,720

The Group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit losses ("ECL"). The ECL on trade receivables are measured using a provision matrix by reference to past default experience, current financial position of the debtors and any known specific factors.

There has been no change in significant assumptions or the method of estimation of ECL during the current financial year.

The following table shows the profile of the Group's trade receivables.

	Current	31-60	61-90	>90	Trade Receivables	Loss Allowance	Trade Receivables (net)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2021	36,714	5,332	728	1,206	43,980	(1,967)	42,013
2020	42,889	5,878	741	2,628	52,136	(1,557)	50,579

As at 28 February 2021, trade receivables of £2,536,000 (2020: £4,108,000) were past due but not impaired. The ageing of these receivables are all within 3 months overdue.

Notes to the Consolidated Financial Statements (continued)

23. Trade and other receivables (continued)

Movements in the Group's provision for impairment of trade receivables are as follows:

	2021 £'000	2020 £'000
At beginning of year	1,557	1,272
Net remeasurement of loss allowance	1,464	505
Receivables written off during the year as uncollectible	(1,054)	(220)
At end of year	1,967	1,557

The net remeasurement of the loss allowance has been included in 'other expenses' within 'operating expenses' in the income statement (note 6). Amounts charged to the loss allowance account are generally written off when there is no expectation of recovering additional cash.

The Group considers there to be no material difference between the fair value of trade and other receivables and their carrying amount in the balance sheet.

The other asset classes within trade and other receivables do not contain impaired assets.

Credit Risk Management

It is the Group's policy to invest cash and assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings. The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be low. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

24. Cash and cash equivalents

	2021 £'000	2020 £'000
Cash in bank and in hand	67,828	40,839

25. Trade and other payables

	2021 £'000	2020 £'000
Current		
Trade payables	602,780	632,911
Social security and other taxes	6,237	6,667
Accruals	53,931	50,692
Other payables	26,000	26,000
	688,948	716,270

Other payables comprise non-interest bearing advance payments from the Group's finance company partners.

Trade and other payables, excluding social security and other taxes and deferred income, are designated as financial liabilities carried at amortised cost. Their fair value is considered to be equal to their carrying value.

Accruals includes £10,740,000 (2020: £12,767,000) in respect of outstanding service plans.

Notes to the Consolidated Financial Statements (continued)

26. Borrowings

	2021 £'000	2020 £'000
Current		
Other borrowings	5,948	25,547
Mortgage	634	-
	<u>6,582</u>	<u>25,547</u>
Non-current		
Mortgage	11,945	-
Bank borrowings	53,832	43,657
	<u>65,777</u>	<u>43,657</u>
	72,359	69,204

Borrowings are repayable as follows:

	2021 £'000	2020 £'000
6 months or less	6,265	25,547
6-12 months	317	-
1-5 years	56,369	43,657
Over 5 years	9,408	-
	<u>72,359</u>	<u>69,204</u>

The fair value of borrowings equals their carrying amount, as the impact of discounting is not significant. Borrowings are designated as financial liabilities carried at amortised cost.

a) Bank borrowings

The Group's Revolving Credit Facility ("RCF") was available throughout the year ended 28 February 2021 and is in place until 27 February 2024. At 1 March 2020 the Group had a committed RCF available of £62,000,000. This facility currently bears an interest rate of between 1.3% and 2.1% above LIBOR depending on the value of the Group's net debt to EBITDA ratio. On 5 March 2021 the Financial Conduct Authority (FCA) announced the cessation of LIBOR on 31 December 2021. The Group is currently working with its banks, Barclays and Nat West to ensure a smooth transition to the Sterling Overnight Index Average (SONIA) index before 31 December 2021.

£44,100,000 of the RCF was drawn at 1 March 2020 with a further £10,000,000 being drawn on 17 March 2021 in respect of the acquisitions of 4 Volkswagen dealership in Yorkshire and a Honda and Kia dealership in Bradford which completed in January and February 2021, bringing the total drawn balance for the remainder of the year ended 28 February 2021 to £54,100,000.

As a result of the uncertainty surrounding the COVID-19 pandemic at the start of the year ended 28 February 2021, the Group's banks agreed to a waiver of financial covenants for the May 2020 and August 2020 measurement periods. In consideration for this interest rates at 2.1% above LIBOR were applied to drawings under the RCF facility from 1 June 2020 to 30 November 2020. Interest from 1 March 2020 to 31 May 2020 and from 1 December 2020 to 28 February 2021 were charged at 1.3% above LIBOR.

On 31 July 2017, the Group entered into a three year interest rate swap in respect of the first £10,000,000 of the RCF facility, at a fixed interest rate of 0.675%, this interest rate swap expired on 31 July 2020. On 6 August 2018, the Group entered into a five year interest rate swap in respect of a further £7,000,000 of this facility, swapping to a fixed interest rate of 1.424%. On 31 July 2019, the Group entered into a further interest rate swap in respect of £5,000,000 of the Group's borrowings, swapping to a fixed interest rate of 1.214%. This interest rate swap increased to £15,000,000 on 31 July 2020, coterminous with the expiry of the £10,000,000 swap referred to above. As a result, the value of hedged borrowings during the year ended 28 February 2021 was maintained at £22,000,000 overall.

A rate of 1.10% above base rate has been applied in relation to overdrafts during the year ended 28 February 2021. The interest rate that applied to the Group's Committed Money Market Loan ("CML") facility was between 1.10% and 1.75% above LIBOR depending on the Group's net debt to EBITDA ratio. As a result of the covenant waiver referred to above, interest was charged on any drawings on this facility between 1 June 2020 and 30 November 2020 at 1.75% above LIBOR.

Notes to the Consolidated Financial Statements (continued)

26. Borrowings (continued)

a) Bank borrowings (continued)

The overdraft and CMML facilities were renewed on 22 April 2021 until 31 May 2022. During the year ended 29 February 2020 the facilities applicable during peak months was £68,000,000. On renewal of the facility, this peak has reduced to £48,000,000 as a result of the low level of historic usage of the facility. The applicable margin rate on the overdraft facility increased to 1.45% above base rate, with the margin on the CMML facility increasing to between 1.35% and 2.00% above SONIA depending on the Group's net debt to EBITDA ratio.

The Group had the following undrawn borrowing and overdraft facilities at 28 February 2021:

	2021 £'000	2020 £'000
Floating rate		
- Overdraft (uncommitted) expiring in one year	5,000	5,000
- CMML (committed) facility expiring in one year	48,000	68,000
- RCF facility expiring in greater than one year ¹	7,900	17,900
- Other borrowings	39,052	9,453
	99,952	100,353

¹Excludes the uncommitted "accordion" facility referred to above.

b) Mortgage

On 6 December 2020, the Group drew down funding under a 20 year mortgage facility to partially finance the BMW MINI acquisition in the North East and Yorkshire on the same date. The mortgage is secured against the freehold and long leasehold properties in Sunderland, Durham and Teesside which were acquired as part of this business acquisition. The mortgage is repayable in equal monthly instalments over the 20 year term and interest is charged on this facility at the fixed rate of 2.9% per annum for the first 5 years.

c) Other borrowings

Other borrowings represent amounts repayable under used vehicle stocking facilities. These loans are subject to interest at 1.5% above base rate and are secured against the related vehicles.

At 28 February 2021 the total used vehicle stocking facility available to the Group was £45,000,000 (2020: £35,000,000).

d) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £67,828,000 (2020: £40,839,000). The cash deposits comprise deposits placed on money market at call, seven day and cash deposited with counterparty banks at commercially negotiated interest rates.

The IFRS 9 classification for trade and other receivables and cash and cash equivalents is amortised cost. Their fair value is deemed to be equal to their carrying value.

27. Derivative financial instruments

Interest rate swap contracts

The fair values of derivative financial instruments used for hedging purposes are disclosed below:

	2021 £'000	2020 £'000
£10m Interest rate swap – cash flow hedges	-	(1)
£7m Interest rate swap – cash flow hedges	(183)	(198)
£5m Interest rate swap – cash flow hedges	-	(294)
£15m Interest rate swap – cash flow hedges	(314)	-
Total derivatives designated as hedging instruments	(497)	(493)

Notes to the Consolidated Financial Statements (continued)

27. Derivative financial instruments (continued)

The £5m interest rate swap in place at 29 February 2020 increased to £15m on 31 July 2020 on the same terms, coterminous with the expiry of the £10m interest rate swap.

	2021 £'000	2020 £'000
Non-current borrowings subject to hedging instruments	22,000	22,000
Total derivative financial liabilities	22,000	22,000

The Group manages its cash-flow interest rate risk by using floating-to-fixed interest rate swaps. Normally the Group raises long-term borrowings at floating rates and swaps them into fixed rates.

The notional principal amounts of outstanding floating to fixed interest rate swap contracts designated as hedging instruments in cash flow interest rate hedges of variable rate debt at 28 February 2021 totalled £22,000,000 (2020: £22,000,000). Their combined fair value was a liability of £497,000 (2020: £493,000).

At 28 February 2021, the main floating rate was LIBOR. Gains and losses recognised in the cash flow hedging reserve in equity on interest rate swap contracts as at 28 February 2021 will be released to the consolidated statement of comprehensive income as the related interest expense is recognised.

28. Deferred income tax liabilities

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

	2021 £'000	2020 £'000
Deferred tax asset to be recovered after more than 12 months	(3,065)	(2,152)
Deferred tax liabilities to be recovered after more than 12 months	12,245	10,331
Deferred tax liabilities (net)	9,180	8,179

The gross movement on the Group's deferred income tax account is as follows:

2021	Deferred tax liabilities £'000	Deferred tax assets £'000	Net £'000
At 1 March 2020	10,331	(2,152)	8,179
Charged / (credited) to income statement (note 12)	1,845	(903)	942
Credited directly to equity	(498)	(10)	(508)
Acquisitions (note 17)	567	-	567
At 28 February 2021	12,245	(3,065)	9,180

2020	Deferred tax liabilities £'000	Deferred tax assets £'000	Net £'000
At 1 March 2019	9,476	(1,882)	7,594
Charged / (credited) to income statement	332	(190)	142
Charged / (credited) directly to equity	408	(80)	328
Acquisitions	115	-	115
At 29 February 2020	10,331	(2,152)	8,179

Notes to the Consolidated Financial Statements (continued)

28. Deferred income tax liabilities (continued)

2021	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Total £'000
At 1 March 2020	2,377	(807)	1,507	5,102	8,179
Charged / (credited) to income statement (note 12)	491	(171)	177	445	942
Acquisitions (note 17)	473	-	-	94	567
Credited directly to equity	-	-	(498)	(10)	(508)
At 28 February 2021	3,341	(978)	1,186	5,631	9,180

2020	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Total £'000
At 1 March 2019	1,977	(735)	1,093	5,259	7,594
Charged / (credited) to income statement	400	(72)	6	(192)	142
Acquisitions	-	-	-	115	115
Credited directly to equity	-	-	408	(80)	328
At 20 February 2020	2,377	(807)	1,507	5,102	8,179

In March 2021 it was announced that the UK Corporation Tax rate will increase to 25% with effect from 1 April 2023. As the substantive enactment was after the balance sheet date the deferred tax balances as at 29 February 2021 have continued to be measured at a rate of 19%.

29. Contract liabilities

	Warranty policies £'000	Free servicing £'000	Total £'000
At 1 March 2020	19,209	2,059	21,268
Created in the year	7,138	1,663	8,801
Recognised as income during the year	(7,881)	(621)	(8,502)
At 28 February 2021	18,466	3,101	21,567
Current	9,294	3,101	12,395
Non-current	9,172	-	9,172
	18,466	3,101	21,567

Warranty policies

The Group sells used vehicle warranty policies which are in-house products that can be taken out over 12, 24 or 36 months with income received on inception of the policy. The policy covers replacement of mechanical and electrical parts which have suffered a mechanical breakdown, the cost of labour to fit failed parts and breakdown assistance for the period of the warranty.

When the income is received it is recognised initially as a contract liability at the fair value allocated to the warranty product at the point of sale and is released to the income statement on a straight-line basis over the life of each warranty policy.

Free servicing

The Group recognises a contract liability in respect of a "free servicing" arrangement whereby the first or subsequent service of a vehicle post sale is provided free of charge to a customer, as part of the initial consideration for the vehicle sale. An element of the initial consideration which is estimated to relate to the service is recognised as a contract liability and is released to the income statement when the service has been undertaken.

Notes to the Consolidated Financial Statements (continued)

30. Retirement benefit asset

The Group operates a trust based defined benefit pension scheme, "Bristol Street Pension Scheme", which has three defined benefit sections which were closed to new entrants and future accrual on 31 May 2003, with another section closed to new entrants in July 2003 and future accrual in October 2013. The assets of the scheme are held separately from those of the Group, being held in separate funds by the Trustee of the Bristol Street Pension Scheme.

The Group has applied IAS 19 (Revised) to the scheme and the following disclosures relate to this standard. The Group recognises any actuarial gains and losses in each year in the Statement of Comprehensive Income.

Regular employer contributions to the scheme (including contributions paid in respect of scheme expenses) for the year commencing 1 March 2021 are estimated to be £Nil.

The last actuarial valuation upon which the IAS 19 (Revised) figures and disclosures have been based was as at 5 April 2018. The actuarial valuation as at 5 April 2021 will be available by 5 July 2022. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

The fair value of the assets of the scheme are:

	Market Value 28 February 2021 £'000	Market Value 29 February 2020 £'000
Liability driven Investment Funds	8,690	12,742
Diversified growth funds	41,362	43,483
Secured finance	5,134	-
Other	985	2,972
	56,171	59,197

None of the assets listed above have a quoted market price in an active market as they are pooled investment funds specifically designed for occupational pension schemes. A value is placed on the Scheme's unit holdings in the funds by the funds' investment managers / custodians.

The Liability Driven Investments ("LDI") Funds that the Scheme is invested in is an investment tool used to reduce the investment risk and therefore volatility in the Scheme's funding position. Changes in interest rates and inflation rates will result in these assets moving in the same way as the liabilities. The LDI portfolio is primarily formed of derivatives, such as swaps, which are leveraged meaning that less LDI assets have to be held to match the same movement in the Scheme's liabilities.

The expected return on the assets as at 29 February 2020 was 1.70%. This is equal to the discount rate used in the calculation of the net interest income for the year ended 28 February 2021.

The overall net surplus between the assets of the Bristol Street Group defined benefit scheme and the actuarial liabilities of the scheme which have been recognised on the balance sheet is as follows:

	2021 £'000	2020 £'000
Fair value of scheme assets	56,171	59,197
Present value of funded obligations	(49,925)	(50,330)
Asset on the balance sheet	6,246	8,867

A surplus may be recognised if the economic benefits are available in the form of a refund or reduction in future contributions. Clause 5.6.2 of the Scheme Rules enables the Scheme to refund surplus assets to the employer. Surpluses are therefore recognised in full.

Notes to the Consolidated Financial Statements (continued)

30. Retirement benefit asset (continued)

The movements in the fair value of scheme assets in the year are as follows:

	2021 £'000	2020 £'000
Opening fair value of scheme assets	59,197	52,407
Interest income	990	1,367
Actuarial (losses) / gains	(2,030)	7,047
Benefits paid	(1,834)	(1,493)
Expenses recognised in the income statement	(152)	(131)
Closing fair value of scheme assets	56,171	59,197

The movement in the present value of the defined benefit obligations of the scheme in the year are as follows:

	2021 £'000	2020 £'000
Opening fair value of scheme liabilities	50,330	45,977
Interest cost	840	1,199
Actuarial losses	589	4,647
Benefits paid	(1,834)	(1,493)
Closing fair value of scheme liabilities	49,925	50,330

The amounts recognised in the income statement in the year are as follows:

	2021 £'000	2020 £'000
Expenses	152	131
Net interest income (note 11)	(150)	(168)
Total expense / (income) included in income statement	2	(37)

The actual returns on Scheme assets in the year are as follows:

	2021 £'000	2020 £'000
Expected return on scheme assets	990	1,367
Actuarial (losses) / gains	(2,030)	7,047
	(1,040)	8,414

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under IAS 19 are set out below:

	2021	2020
Discount rate	2.00%	1.70%
Limited Price Indexation ("LPI") pension increases before 2030	3.10%	2.90%
Limited Price Indexation ("LPI") pension increases after 2030	3.00%	2.40%
Inflation rate before 2030	2.10%	1.90%
Inflation rate after 2030	3.00%	1.90%

Assumptions regarding future mortality experience are set based on mortality tables which allow for future mortality improvements.

The average life expectancy in years of a pensioner retiring at age 65 at the balance sheet date is as follows:

	2021	2020
Male	22	22
Female	24	24

Notes to the Consolidated Financial Statements (continued)

30. Retirement benefit asset (continued)

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date is as follows:

	2021	2020
Male	23	23
Female	25	25

Amounts recognised in the Consolidated Statement of Comprehensive Income in the year are as follows:

	2021 £'000	2020 £'000
Actuarial (losses) / gains	(2,619)	2,400
Related deferred tax liability (note 28)	498	(408)
Total, included within retained earnings	(2,121)	1,992
Cumulative actuarial (losses) / gains	(1,581)	540

Sensitivity analysis

The table below gives an indication of the impact on the IAS 19 valuation as a result of changes to the principal assumptions:

Change in assumption:	Approximate impact on current surplus: £'000
0.25% increase in discount rate	1,863
0.25% decrease in discount rate	(1,972)
0.25% increase in price inflation (and associated assumptions)	(1,496)
0.25% decrease in price inflation (and associated assumptions)	1,238
1 year increase in life expectancy at age 65	(2,071)
1 year decrease in life expectancy at age 65	2,027

31. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve

2021	Ordinary shares of 10p each Number of shares (‘000)	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Total £'000
At 1 March 2020	367,120	36,917	124,939	10,645	(803)	2,810	174,508
Issuance of treasury shares in satisfaction of exercised share options	40	-	-	-	16	-	16
Purchase of treasury shares	(5,274)	-	-	-	(2,004)	-	(2,004)
At 28 February 2021	361,886	36,917	124,939	10,645	(2,791)	2,810	172,520

Notes to the Consolidated Financial Statements (continued)

31. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (continued)

The other reserve is a merger reserve, arising from shares issued for shares, as consideration to the former shareholders of acquired businesses.

2020	Ordinary shares of 10p each Number of shares (‘000)	Ordinary share capital £’000	Share premium £’000	Other reserve £’000	Treasury share reserve £’000	Capital redemption reserve £’000	Total £’000
At 1 March 2019	375,023	37,661	124,939	10,645	(602)	2,066	174,709
Issuance of treasury shares in satisfaction of exercised share options	529	-	-	-	200	-	200
Cancellation of repurchased shares	(7,432)	(744)	-	-	-	744	-
Purchase of treasury shares	(1,000)	-	-	-	(401)	-	(401)
At 29 February 2020	367,120	36,917	124,939	10,645	(803)	2,810	174,508

Share Option Schemes

Under the Group's equity-settled share option schemes, share options are granted to Executive Directors and to selected employees. The exercise price of the granted CSOP options is equal to the market price of the shares on the date of the grant and is £Nil in the case of options issued under the long term incentive plan ("LTIP") Scheme. Options are conditional on the employee completing three years' service (the vesting period). The options are exercisable starting three years from grant date, subject to the performance criteria set out below. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As disclosed in note 8, a share based payments charge of £265,000 (2020: £733,000) has been recognised during the year, in relation to the schemes as described below.

Movements in the number of share options in issue during the year are as follows:

Award Date	Type	Granted / Outstanding at 28 February 2021 No of shares	Granted / Outstanding at 29 February 2020 No of shares	Exercise price	Date from which exercisable	Expiry date
28 Nov 2011 ¹	CSOP	569,230	569,230	26.00p	28 Nov 2014	28 Nov 2021
12 Jun 2012 ¹	CSOP	2,000,000	2,000,000	27.50p	30 Aug 2015	12 Jun 2022
24 Oct 2012 ¹	CSOP	2,010,000	2,010,000	39.25p	30 Aug 2015	24 Oct 2022
20 Aug 2013 ¹	LTIP	53,583	53,583	0.00p	20 Aug 2016	20 Aug 2023
5 Sep 2016	LTIP	80,674	121,011	0.00p	5 Sep 2019	5 Sep 2026
13 Oct 2016	CSOP	-	1,880,000	45.38p	13 Oct 2018	13 Oct 2026
23 Jun 2017 ²	LTIP	-	1,893,940	0.00p	23 Jun 2020	23 Jun 2027
6 Nov 2017	CSOP	2,530,000	2,640,000	45.00p	7 Nov 2020	7 Nov 2027
2 Jul 2018	CSOP	3,600,000	3,600,000	49.60p	2 Jul 2021	2 Jul 2028
17 Jul 2018 ³	LTIP	458,864	458,864	0.00p	17 Jul 2021	17 Jul 2028
8 Nov 2018	CSOP	5,070,000	5,170,000	38.00p	8 Nov 2021	8 Nov 2028
3 Sep 2019 ⁴	LTIP	-	1,168,417	0.00p	3 Sep 2022	3 Sep 2029
1 Mar 2020	PSO	5,390,381	-	0.00p	1 Mar 2024	1 Mar 2030
		21,762,732	21,565,045			

¹ Vested.

² Lapsed during the period ended 28 February 2021 in full as a result of not satisfying the relevant performance criteria.

³ Lapsed in full subsequent to 28 February 2021 as a result of not satisfying the relevant performance criteria.

⁴ Cancelled during the year ended 28 February 2021.

Notes to the Consolidated Financial Statements (continued)

31. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (continued)

Share Option Schemes (continued)

Movements in the number of share options outstanding are as follows:

	2021 No of share options	2020 No of share options
At beginning of year	21,565,045	25,087,211
Granted	8,355,086	1,168,417
Forfeited	(389,677)	(940,000)
Lapsed	(7,727,385)	(2,811,618)
Exercised	(40,337)	(938,965)
At end of year	21,762,732	21,565,045

The weighted average share price during the year was 27.6p (2020: 36.3p). The weighted average fair value of PSO options granted during the year, determined using the Black-Scholes model was 27.0p per option.

Movements in the number of share options outstanding and their related exercise prices are as follows:

	CSOP		LTIP		PSO		Total
	Options No of shares	Weighted average exercise price	Options No of shares	Weighted average exercise price	Options No of shares	Weighted average exercise price	Options No of shares
At 1 March 2019	20,869,229	43.64p	4,217,982	0.00p	-	-	25,087,211
Granted	-	-	1,168,417	0.00p	-	-	1,168,417
Forfeited	(940,000)	49.60p	-	-	-	-	(940,000)
Exercised	(410,000)	27.50p	(528,965)	0.00p	-	-	(938,965)
Lapsed	(1,650,000)	74.50p	(1,161,618)	0.00p	-	-	(2,811,618)
At 29 February 2020	17,869,229	40.85p	3,695,816	0.00p	-	-	21,565,045
Granted	-	-	-	-	8,355,086	0.00p	8,355,086
Forfeited	(210,000)	41.67p	-	-	(179,677)	0.00p	(389,677)
Exercised	-	-	(40,337)	0.00p	-	-	(40,337)
Lapsed	(1,880,000)	45.38p	(3,062,356)	0.00p	(2,785,029)	0.00p	(7,727,385)
At 28 February 2021	15,779,229	40.16p	593,123	0.00p	5,390,380	0.00p	21,762,732

Significant inputs into the Black-Scholes model for the PSO option awards above are set out below:

Vesting period	3 years
Expected volatility	15%
Option life	7 years
Expected life	3 years
Annual risk-free interest rate	0.3%
Dividend yield	5%

Expected volatility is based on statistical analysis of daily share prices since the admission of Vertu Motors plc to AiM. This is then adjusted for events not considered to be reflective of the volatility of the share price going forward.

Notes to the Consolidated Financial Statements (continued)

31. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (continued)

Share Option Schemes (continued)

The performance conditions attaching to any share options issued to Executive Directors, Senior Management or colleagues of the Company are considered and set by the Remuneration Committee. The following share incentive schemes are operated by the Company:

a) Share Incentive Plan ("SIP")

The SIP was introduced in accordance with appropriate legislation and it allows colleagues to invest in partnership shares out of gross salary. A participant may withdraw from the SIP at any time but if he or she does so before the partnership shares have been held in trust for five years (except in certain specified circumstances such as redundancy or disability) he or she will incur an income tax liability. The Company currently does not supplement or match the partnership shares acquired by colleagues.

b) Company Share Option Plan ("CSOP") Approved and Unapproved Share Option Schemes

The number of vested options issued up to and including 24 October 2012, which remain outstanding are shown in the table on page 118.

The CSOP options issued on 13 October 2016 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2019 and 31 July 2020 is above 75p and then 100% of the options vest. At an average share price of below 75p none of the options are exercisable, these options therefore lapsed during the year.

The CSOP options issued on 6 November 2017 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2020 and 31 July 2021 is above 62.5p and then 100% of the options vest. At an average share price of 57.5p 50% of the options are exercisable. At prices between 57.5p and 62.5p, options will vest on a straight-line basis between 50% and 100%. At a share price below 57.5p none of the options are exercisable.

The CSOP options issued on 2 July 2018 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 62.5p and then 100% of the options vest. At an average share price of 57.5p 50% of the options are exercisable. At prices between 57.5p and 62.5p, options will vest on a straight-line basis between 50% and 100%. At a share price below 57.5p none of the options are exercisable.

The CSOP options issued on 8 November 2018 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 50.9p and then 100% of the options vest. At an average share price of 44.6p 50% of the options are exercisable. At prices between 44.6p and 50.9p, options will vest on a straight-line basis between 50% and 100%. At a share price below 44.6p none of the options are exercisable.

There were no CSOP share options issued during the financial year to 28 February 2021.

c) Long Term Incentive Plan ("LTIP")

Vesting of LTIP awards issued subsequent to June 2015 is subject to targets based on the achievement of absolute growth in the Company's total shareholder return ("TSR") and the Group's target return on shareholders' equity. The vesting of such awards is measured over a three year period, but the awards are subject to an additional two year holding period before they can be exercised.

On 17 July 2018, 458,864 LTIP share awards were made to Executive Directors. These awards lapsed in full subsequent to 28 February 2021 as a result of not satisfying the relevant performance criteria.

Notes to the Consolidated Financial Statements (continued)

31. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (continued)

Share Option Schemes (continued)

d) Partnership Share Options ("PSO")

A new share incentive (Partnership Share Options) for certain of the Group's senior management colleagues was introduced in the financial year commencing 1 March 2020. Under this scheme colleagues received nil cost share options in the Company pro-rata to their basic salary.

Vesting of PSO awards are then determined by the proportion of each colleague's annual on-target bonuses earned for the financial year in which they are awarded, up to a maximum of 100% of the awards granted. Any vested options will then be capable of exercise at the end of a three-year holding period.

On 1 March 2020, 8,355,086 PSO awards were made to certain senior managers. As a result of the impact of COVID-19 on the first quarter of the financial year ended 28 February 2021, 4 months' worth of the PSO awards, i.e. 2,785,029 options lapsed with the remaining 8 months' worth of options, i.e. 5,570,057 options, being capable of vesting in proportion to the actual achievement of on-target bonuses between 1 July 2020 and 28 February 2021.

On 1 March 2021 7,558,488 PSO awards have been made in respect of the financial year commencing on that date.

32. Hedging reserve

The hedging reserve arises as a result of cash flow hedges in relation to interest rate swap derivatives. The movements on the hedging reserve are as follows:

	2021 £'000	2020 £'000
At beginning of year	(407)	(19)
Fair value losses on derivative financial instruments during the year	(6)	(468)
Deferred taxation on fair value losses during year	10	80
At end of year	(403)	(407)

33. Reconciliation of net cash flow to movement in net debt

	2021 £'000	2020 £'000
Net increase / (decrease) in cash and cash equivalents	26,989	(25,680)
Cash inflow from proceeds of borrowings	(22,760)	(2,381)
Cash outflow from repayment of borrowings	19,705	-
Cash movement in net debt	23,934	(28,061)
Capitalisation of loan arrangement fees	75	118
Amortisation of loan arrangement fees	(175)	(175)
Non-cash movement in net debt	(100)	(57)
Movement in net debt (excluding lease liabilities)	23,834	(28,118)
Opening net debt (excluding lease liabilities)	(28,365)	(247)
Closing net debt (excluding lease liabilities)	(4,531)	(28,365)
Lease liabilities at 1 March	(96,894)	(87,961)
Capitalisation of new leases (Note 19)	(12,098)	(22,325)
Disposal of lease liabilities (Note 19)	2,549	-
Interest element of lease repayments (Note 11)	(3,632)	(3,595)
Cash outflow from lease repayments (Note 19)	18,974	16,987
Lease liabilities at 28 February	(91,101)	(96,894)
Closing net debt (including lease liabilities)	(95,632)	(125,259)

Notes to the Consolidated Financial Statements (continued)

34. Cash flow from movement in working capital

The following adjustments have been made to reconcile from the movement in balance sheet heading to the amount presented in the cash flow from the movement in working capital. This is in order to more appropriately reflect the cash impact of the underlying transactions.

2021

	Inventories (Note 21) £'000	Current trade and other receivables (Note 23) £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables (Note 25)			(688,948)	
Contract liabilities (Note 29)			(21,567)	
At 28 February 2021	597,391	59,375	(710,515)	
At 29 February 2020	639,177	71,720	(737,538)	
Balance sheet movement	41,786	12,345	(27,023)	
Acquisitions (Note 17)	23,691	142	(20,639)	
Disposals (Note 17)	(1,885)	(16)	230	
Movement excluding business combinations	63,592	12,471	(47,432)	28,631
Pension related balances				152
Decrease in capital creditors				722
Decrease in interest accrual				135
Movement as shown in Consolidated Cash Flow Statement				29,640

2020

	Inventories £'000	Current trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(716,270)	
Contract liabilities			(21,268)	
At 29 February 2020	639,177	71,720	(737,538)	
At 28 February 2019	618,675	62,893	(740,777)	
Balance sheet movement	(20,502)	(8,827)	(3,239)	
Acquisitions	6,563	286	(2,380)	
Deferred consideration on acquisitions	-	-	4,100	
Movement excluding business combinations	(13,939)	(8,541)	(1,519)	(23,999)
Pension related balances				131
Decrease in capital creditors				422
Increase in interest accrual				(117)
Movement as shown in Consolidated Cash Flow Statement				(23,563)

Notes to the Consolidated Financial Statements (continued)

35. Reconciliation of movement in liabilities to cash arising from financing activities

	Borrowings £'000	Lease liabilities £'000	Treasury share reserve £'000	Retained earnings £'000	Total £'000
As at 1 March 2020	69,204	96,894	(803)	89,272	254,567
Cash flows from financing activities:					
Issue of treasury shares	-	-	16	(16)	-
Purchase of treasury shares	-	-	(2,004)	-	(2,004)
Proceeds from issue of loan	22,760	-	-	-	22,760
Repayment of borrowings	(19,705)	-	-	-	(19,705)
Lease repayments	-	(15,342)	-	-	(15,342)
Net cash outflow from financing activities	3,055	(15,342)	(1,988)	(16)	(14,291)
Other changes:					
Liability related: capitalisation and amortisation of loan fees and expenses	100	-	-	-	100
Liability related: capitalisation of lease liabilities	-	12,098	-	-	12,098
Liability related: disposal of lease liabilities	-	(2,549)	-	-	(2,549)
Equity related: other movements	-	-	-	14,567	14,567
As at 28 February 2021	72,359	91,101	(2,791)	103,823	264,492

36. Contingencies

Contingent liabilities

Under sections 394A and 479A of the Companies Act 2006, the parent company Vertu Motors plc has guaranteed all outstanding liabilities to which the subsidiaries listed on pages 85 to 86 were subject to at the end of 28 February 2021 until they are satisfied in full. These liabilities total £969,920,000 (2020: £822,279,000), including intercompany loans of £320,589,000 (2020: £143,344,000). Such guarantees are enforceable against Vertu Motors plc by any person to whom any such liability is due.

37. Capital commitments

Capital commitments in respect of property, plant and equipment amounting to £379,000 were outstanding as at 28 February 2021 (2020: £3,127,000).

38. Related party transactions

Key management personnel are defined as the Directors of the Company. The remuneration of the Directors who served during the year ended 28 February 2021 is set out in the Directors' Remuneration Report on pages 62 to 66.

Ken Lever, a Director of the Company, also sits on the board of Biffa plc. A subsidiary company of Biffa plc provides waste disposal services to the Group on normal commercial terms. In the year ended 28 February 2021, the value of such services provided was £491,010 (2020: £425,473). £45,421 was unpaid at 28 February 2021 in respect of these services (2020: £43,348). In the year ended 28 February 2021, sales of £15,492 (2020: £43,674) were made to Biffa plc, of which £1,178 was outstanding at the year end (2020: £1,646).

Notes to the Consolidated Financial Statements (continued)

38. Related party transactions (continued)

During the year to 28 February 2021, Robert Forrester, David Crane, Karen Anderson, Andrew Goss and Pauline Best bought and sold vehicles from and to the Group. The value of these transactions for the year ended 28 February 2021 and the year ended 29 February 2020 is presented below. No profit or loss was made in respect of these transactions in the year ended 28 February 2021 or the year ended 29 February 2020. All of these transactions were pursuant to an employee vehicle ownership plan available to Executive Directors and certain Senior Managers. No outstanding balances were due to or from the Group in respect of these transactions at 28 February 2021 (2020: £Nil).

2021

	Bought from the Group		Sold to the Group	
	Number of vehicles	Purchase price £'000	Number of vehicles	Sale price £'000
Robert Forrester	4	323	4	325
David Crane	3	211	3	240
Karen Anderson	2	122	2	124
Andrew Goss	1	60	1	73
Pauline Best	2	109	2	105

2020

	Bought from the Group		Sold to the Group	
	Number of vehicles	Purchase price £'000	Number of vehicles	Sale price £'000
Robert Forrester	5	402	5	415
David Crane	6	354	6	308
Peter Jones ¹	1	97	2	173
Pauline Best	3	201	2	147
Andrew Goss	2	145	2	119
Karen Anderson ²	5	284	5	259

¹ resigned on 24 July 2019

² appointed on 1 March 2019

39. Post balance sheet events

On 12 March 2021, the Group acquired the trade and assets of a Honda car dealership in Huddersfield, West Yorkshire, which also holds an authorised repair contract for Mitsubishi, from Hepworth Motor Group. Total consideration of £0.8m was settled from the Group's cash resources.

On 7 May 2021, the Group disposed of a surplus property in Whitchurch following the closure of its Volkswagen dealership on 26 April 2021, which previously operated from these premises. Sale proceeds of £430,000 were received generating a profit on disposal of £55,000.

Company Balance Sheet

As at 28 February 2021

	Note	2021 £'000	2020 £'000
Fixed assets			
Intangible assets	5	445	421
Tangible assets	6	2,983	3,222
Investments	7	166,722	166,722
		170,150	170,365
Current assets			
Debtors	8	153,932	171,452
Cash at bank and in hand		67,654	33,616
Total current assets		221,586	205,068
Creditors: amounts falling due within one year	10	(81,227)	(78,202)
Net current assets		140,359	126,866
Total assets less current liabilities		310,509	297,231
Creditors: amounts falling due after more than one year	11	(63,004)	(53,960)
Net assets		247,505	243,271
Capital and reserves			
Called up share capital	13	36,917	36,917
Share premium account	13	124,939	124,939
Other reserve	13	10,645	10,645
Hedging reserve	14	(403)	(407)
Treasury share reserve	13	(2,791)	(803)
Capital redemption reserve	13	2,810	2,810
Profit and loss account:			
At start of year		69,170	82,724
Profit/(loss) for the year		5,861	(5,102)
Other changes in retained earnings		357	(8,452)
	15	75,388	69,170
Total shareholders' funds		247,505	243,271

These financial statements, on pages 125 to 137, have been approved for issue by the Board of Directors on 12 May 2021 and signed by:

Robert Forrester
Chief Executive

Karen Anderson
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 28 February 2021

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total Equity £'000
As at 1 March 2020	36,917	124,939	10,645	(407)	(803)	2,810	69,170	243,271
Profit for the year	-	-	-	-	-	-	5,861	5,861
Tax on items taken directly to equity	-	-	-	10	-	-	-	10
Fair value losses	-	-	-	(6)	-	-	-	(6)
Total comprehensive income for the year	-	-	-	4	-	-	5,861	5,865
Sale of treasury shares	-	-	-	-	16	-	(16)	-
Purchase of treasury shares	-	-	-	-	(2,004)	-	-	(2,004)
Share based payments charge	-	-	-	-	-	-	373	373
As at 28 February 2021	36,917	124,939	10,645	(403)	(2,791)	2,810	75,388	247,505

The other reserve is a merger reserve, arising from shares issued for shares as consideration, to the former shareholders of acquired companies.

For the year ended 29 February 2020

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total Equity £'000
As at 1 March 2019	37,661	124,939	10,645	(19)	(602)	2,066	82,724	257,414
Loss for the year	-	-	-	-	-	-	(5,102)	(5,102)
Tax on items taken directly to equity	-	-	-	80	-	-	-	80
Fair value losses	-	-	-	(468)	-	-	-	(468)
Total comprehensive expense for the year	-	-	-	(388)	-	-	(5,102)	(5,490)
Sale of treasury shares	-	-	-	-	200	-	(200)	-
Purchase of treasury shares	-	-	-	-	(401)	-	-	(401)
Repurchase of own shares	-	-	-	-	-	-	(2,749)	(2,749)
Cancellation of repurchased shares	(744)	-	-	-	-	744	-	-
Dividend paid	-	-	-	-	-	-	(6,122)	(6,122)
Share based payments charge	-	-	-	-	-	-	619	619
As at 29 February 2020	36,917	124,939	10,645	(407)	(803)	2,810	69,170	243,271

Notes to the Company Financial Statements

1. Accounting Policies

Statement of compliance

The separate financial statements of Vertu Motors plc, the parent undertaking, have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with.

The Company has taken advantage of the following exemptions in paragraph 1.12 of FRS 102:

- from preparing a statement of cash flows and related notes, on the basis that it is a qualifying entity and the consolidated statement of cash flows of Vertu Motors plc includes the Company's cash flows,
- certain disclosures in relation to financial instruments,
- certain disclosures in relation to share based payments; and
- from disclosing the Company key management personnel compensation.

Basis of preparation

Vertu Motors plc is a Public Limited Company which is listed on the Alternative Investment Market (AIM) and is incorporated and domiciled in England.

The financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of derivative financial instruments to fair value. Note 1 of the consolidated financial statements provides further details on the Directors' conclusions regarding the going concern basis of preparation.

The principal accounting policies, which have been consistently applied throughout the year, are set out below.

No profit and loss account is presented by the Company, as permitted under section 408 of the Companies Act 2006. The profit of the Company for the year ended 28 February 2021 was £5,861,000 (2020: loss of £5,102,000).

The consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 131 to 133 of these financial statements. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2021 by virtue of s479A of Companies Act 2006. Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2021 by virtue of s394A of Companies Act 2006. In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the Company has given a statutory guarantee of all the outstanding liabilities as at 28 February 2021 of the subsidiaries listed below, further detail of which is provided in note 36 to the consolidated financial statements on page 123.

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2021 by virtue of s479A Companies Act 2006 are:

Albert Farnell Limited	South Hereford Garages Trade Parts LLP
All Car Parts Limited	Tyne Tees Finance Limited
Bristol Street First Investments Limited	Vans Direct Limited
Bristol Street Fourth Investments Limited	Vertu Motors (Chingford) Limited
Grantham Motor Company Limited	Vertu Motors (Continental) Limited
Hughes of Beaconsfield Limited	Vertu Motors (Knaresborough) Limited
Macklin Property Limited	Vertu Motors (Property) Limited
Sigma Holdings Limited	Vertu Motors (Property 2) Limited
South Hereford Garages Limited	Vertu Motors (VMC) Limited

Notes to the Company Financial Statements (continued)

1. Accounting Policies (continued)

Basis of preparation (continued)

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2021 by virtue of s394A of Companies Act 2006 are:

Aceparts Limited	International Concessionaires Limited
Best4Vans Limited	K C Motability Solutions Limited
Blacks Autos Limited	Merifield Properties Limited
Blake Holdings Limited	Motor Nation Car Hypermarkets Limited
Boydslaw 103 Limited	National Allparts Limited
Bristol Street (No.1) Limited	Newbolds Garage (Mansfield) Limited
Bristol Street (No.2) Limited	Nottingham TPS LLP
Bristol Street Commercials (Italia) Limited	Peter Blake (Chatsworth) Limited
Bristol Street Fifth Investments Limited	Peter Blake (Clumber) Limited
Bristol Street Fleet Services Limited	Peter Blake Limited
Bristol Street Group Limited	SHG Holdings Limited
Bristol Street Limited	The Taxi Centre Limited
Brookside (1998) Limited	Typocar Limited
BSH Pension Trustee Limited	Vertu Fleet Limited
Carsandvansdirect Limited	Vertu Motors (AMC) Limited
Compare Click Call Limited	Vertu Motors (Durham) Limited
Dobies (Carlisle) Limited	Vertu Motors (Finance) Limited
Dunfermline Autocentre Limited	VanMan Limited
Easy Vehicle Finance Limited	Vertu Motors (Retail) Limited
Gordon Lamb Group Limited	Vertu Motors (Pity Me) Limited
Gordon Lamb Limited	Vertu Motors Property 2 Holdings Limited
Gordon Lamb Holdings Limited	Vertu Ventures Limited
Hillendale Group Limited	Why Pay More For Cars Limited
Hillendale LR Limited	Widnes Car Centre Limited
Horseshoe Vehicle Contracts Limited	Widnes Car Centre (1994) Limited
Hughes Group Holdings Limited	

The auditors' remuneration for audit and other services was £25,000 (2020: £25,000).

Intangible assets

Intangible assets comprise computer software and are carried at cost less accumulated amortisation and any impairment losses. Amortisation is provided on a straight-line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is between four and six years.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided at rates calculated to write off the cost of tangible fixed assets less their estimated residual values, on a straight-line basis over their estimated useful lives as follows:

Computer equipment	16.6% - 50%
Office equipment	25%

Investments

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

Notes to the Company Financial Statements (continued)

1. Accounting Policies (continued)

Deferred taxation (continued)

A deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income

Deferred income is in relation to vehicle warranty product income. The Group sells used vehicle warranty policies which are in house products that can be taken out over 12, 24 or 36 months with income received on inception of the policy. The policy covers replacement of mechanical and electrical parts which have suffered a mechanical breakdown, the cost of labour to fit failed parts and breakdown assistance for the period of the warranty.

When the income is received it is recognised initially as deferred income and is released to the income statement on a straight-line basis over the life of each warranty policy.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. In practice this means that revenue is recognised when a service has been undertaken.

Share based payments

The Company allows employees to acquire shares of the Company through share option schemes. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The Company operates a number of equity-settled, share-based compensation plans. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

2. Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates, will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

Impairment of fixed asset investments

The Company tests annually, or whenever events or changes in circumstances occur, to determine whether the fixed asset investments held have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the key assumptions used for the impairment testing for the year ended 28 February 2021, as well as the results of sensitivity analysis performed, are provided in note 7.

Notes to the Company Financial Statements (continued)

2. Critical accounting estimates and judgements (continued)

Share based payments

Share options issued to certain employees are measured at fair value at the grant date using a fair value model, and are expensed on a straight-line basis over the vesting period based on an estimate of the number of options which will vest. The key assumptions of this model are disclosed in note 31 of the Vertu Motors plc consolidated financial statements.

3. Employee benefit expense

	2021 £'000	2020 £'000
Wages and salaries	11,452	15,313
Social security costs	4,381	1,341
Pension costs – defined contribution plans	2,022	1,922
	17,855	18,576
Share based payments charge (note 17)	265	733
	18,120	19,309

The above employee benefit expense for the year ended 28 February 2021 includes £1,946,000 of Government grant income in respect of the Coronavirus Job Retention Scheme.

4. Average monthly number of people employed (including Directors)

	2021 Number	2020 Number
Sales	133	124
Service	23	23
Administration	445	416
	601	563

5. Intangible assets

	Computer Software £'000
Cost	
At 1 March 2020	2,382
Additions	266
Disposals	(2)
At 28 February 2021	2,646
Accumulated Amortisation	
At 1 March 2020	1,961
Amortisation charge	242
Disposals	(2)
At 28 February 2021	2,201
Net Book Value	
At 28 February 2021	445
At 29 February 2020	421

Notes to the Company Financial Statements (continued)

6. Tangible assets

	Computer equipment £'000	Office equipment £'000	Total £'000
Cost			
At 1 March 2020	9,184	549	9,733
Additions	1,333	85	1,418
Disposals	(141)	-	(141)
At 28 February 2021	10,376	634	11,010
Accumulated Depreciation			
At 1 March 2020	6,026	485	6,511
Depreciation charge	1,596	46	1,642
Disposals	(126)	-	(126)
At 28 February 2021	7,496	531	8,027
Net Book Value			
At 28 February 2021	2,880	103	2,983
At 29 February 2020	3,158	64	3,222

7. Fixed asset investments

	2020
	£'000
Cost	
At 1 March 2020 and 28 February 2021	179,993
Accumulated impairment charges	
At 1 March 2020 and 28 February 2021	13,271
Net Book Value	
At 29 February 2020 and 28 February 2021	166,722

Vertu Motors plc, the Company, as at 28 February 2021 and 29 February 2020, invested in 100% of the ordinary share capital of the following subsidiary undertakings, incorporated in the United Kingdom:

Company	Principal activity
<u>The registered office address of the following companies is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne & Wear, NE11 0XA:</u>	
Bristol Street First Investments Limited	Motor retailer
Bristol Street Fourth Investments Limited	Motor retailer
Vertu Motors (VMC) Limited	Motor retailer
Grantham Motor Company Limited	Motor retailer
Vertu Motors (Chingford) Limited	Motor retailer
Albert Farnell Limited	Motor retailer
South Hereford Garages Limited ⁴	Motor retailer
Tyne Tees Finance Limited ¹	Motor retailer
Vertu Motors (Continental) Limited ¹	Motor retailer
Hughes of Beaconsfield Limited ²	Motor retailer
South Hereford Garages Trade Parts LLP ¹	Parts retailer
Vans Direct Limited ¹	Online van retailer
Vertu Motors Third Limited	Online advertising
All Car Parts Limited ¹	Online parts retailer
Macklin Property Limited ³	Property company
Vertu Motors (Property) Limited	Property company
Vertu Motors (Knaresborough) Limited ³	Property company
Vertu Motors (Property 2) Limited ¹	Property company
BSH Pension Trustee Limited ¹	Pension scheme trustee
Vertu Motors (Durham) Limited ¹	Holding company (dormant subsidiaries)
Bristol Street Fifth Investments Limited ¹	Holding company (dormant subsidiaries)
Blake Holdings Limited ¹	Holding company (dormant subsidiaries)

Notes to the Company Financial Statements (continued)

7. Fixed asset investments (continued)

Company	Principal activity
Widnes Car Centre (1994) Limited ¹	Holding company (dormant subsidiaries)
Brookside (1998) Limited ¹	Holding company (dormant subsidiaries)
Hillendale Group Limited	Holding company (dormant subsidiaries)
Gordon Lamb Group Limited	Holding company (dormant subsidiaries)
Gordon Lamb Holdings Limited ¹	Holding company (dormant subsidiaries)
Bristol Street Group Limited ¹	Holding company
Vertu Motors Property 2 Holdings Limited	Holding company
Sigma Holdings Limited	Holding company
Hughes Group Holdings Limited	Holding company
Vertu Ventures Limited	Holding company
Aceparts Limited	Holding company
SHG Holdings Limited	Holding company
Why Pay More For Cars Limited ¹	Dormant company
International Concessionaires Limited ¹	Dormant company
Vertu Motors (AMC) Limited	Dormant company
Motor Nation Car Hypermarkets Limited	Dormant company
Bristol Street Limited ¹	Dormant company
Bristol Street (No. 1) Limited ¹	Dormant company
Bristol Street (No. 2) Limited ¹	Dormant company
National Allparts Limited ¹	Dormant company
Merifield Properties Limited ¹	Dormant company
Peter Blake Limited ¹	Dormant company
Peter Blake (Chatsworth) Limited ¹	Dormant company
Peter Blake (Clumber) Limited ¹	Dormant company
Typocar Limited	Dormant company
Widnes Car Centre Limited ¹	Dormant company
KC Mobility Solutions Limited ¹	Dormant company
Compare Click Call Limited	Dormant company
Dobies (Carlisle) Limited ¹	Dormant company
Newbolds Garages (Mansfield) Limited ¹	Dormant company
Hillendale LR Limited ¹	Dormant company
Blacks Autos Limited ¹	Dormant company
Gordon Lamb Limited ¹	Dormant company
Vertu Motors (Finance) Limited	Dormant company
Vertu Motors (Pity Me) Limited ¹	Dormant company
Bristol Street Commercials (Italia) Limited	Dormant company
Vertu Fleet Limited	Dormant company
Vertu Motors (Retail) Limited	Dormant company
Bristol Street Fleet Services Limited ¹	Dormant company
VanMan Limited ¹	Dormant company
Best4Vans Limited ¹	Dormant company
Horseshoe Vehicle Contracts Limited ¹	Dormant company
Carsandvansdirect Limited ¹	Dormant company
Nottingham TPS LLP ¹	Dormant LLP
<u>The registered address of the following companies is Dunfermline Autocentre, Halbeath Road, Dunfermline, Fife, KY12 7RD</u>	
Boydslaw 103 Limited ¹	Holding company
Dunfermline Autocentre Limited ¹	Dormant company

The registered address of the following companies is Peugeot Paisley, Saturn Avenue, Phoenix Retail Park, Paisley, PA1 2BH

The Taxi Centre Limited	Dormant company
Easy Vehicle Finance Limited	Dormant company

¹ Held indirectly by the Company.

² On 1 April 2020, the trade and assets of this subsidiary were transferred to other wholly owned subsidiaries of the Group, thereafter this subsidiary ceased to trade.

³ On 16 September 2020, the freehold and long leasehold properties held by these companies were transferred to another wholly owned subsidiary of the Group, thereafter this subsidiary ceased to trade.

⁴ On 1 May 2021, the trade and assets of this subsidiary were transferred to another wholly owned subsidiary of the Group, thereafter this subsidiary ceased to trade.

Notes to the Company Financial Statements (continued)

7. Fixed asset investments (continued)

Furthermore, the following subsidiary undertaking (ordinary shares 100% owned and incorporated within the United Kingdom) was incorporated in the year ended 28 February 2021:

Company	Principal activity
Vertu Accident Repair Limited	Maintenance and repair of motor vehicles

The registered address of Vertu Accident Repair Limited is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne & Wear NE11 0XA.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

The Company tests annually, or whenever events or changes in circumstances occur, to determine whether the fixed asset investments held have suffered any impairment. The recoverable amounts of cash-generating units ("CGUs") have been determined based on value-in-use calculations.

The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to gross profits and direct costs during the year in respect of the Company's trading subsidiaries:

- Management estimates discount rates using pre-tax rates that reflect current market assessments and the time value of money and the risks specific to the CGUs.
- Growth rates are based upon industry forecasts and the past performance of the CGU.
- Changes in gross profits and direct costs are based on past practices and expectations of future changes in the market.

Annual growth rates typically between 0% and 3% are assumed for years three to five depending on the CGU, after which a growth rate of 0% is assumed to perpetuity. Cash flows into perpetuity have been used to reflect the long-term and open-ended nature of the Group's business model.

A risk adjusted pre-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 8% (2020: 8%) is applied.

Sensitivity analysis has been performed on the impairment test based on three potential scenarios with the following results:

- If COVID-19 restrictions were to force further closures of non-essential retail were to take place for a 3 month period in the year ended 28 February 2022 on the same terms as the restrictions seen between November 2020 and April 2021, it is not expected to create an additional impairment charge.
- If the growth rate in years three to five is reduced to -10%, the Company would incur an additional impairment charge in respect of fixed asset investments of £1.8m.
- If the pre-tax WACC was increased to 12%, the Company would incur an additional impairment charge in respect of fixed asset investments of £3.1m.

8. Debtors

	2021	2020
	£'000	£'000
Trade debtors	1,828	1,401
Amounts owed by Group undertakings	141,989	157,478
Deferred tax asset (note 9)	2,416	1,733
Value Added Tax	2,525	3,586
Prepayments and accrued income	5,174	7,254
	153,932	171,452

Amounts owed by Group undertakings are unsecured, bear no interest and have no fixed repayment date.

Notes to the Company Financial Statements (continued)

9. Deferred tax asset

	2021 £'000	2020 £'000
At beginning of year	1,733	1,467
Credited to the profit and loss account	673	186
Credited directly to equity	10	80
At end of year	2,416	1,733

The amounts recognised for deferred tax assets, calculated under the liability method at 19% (2020: 17%) are set out below:

	2021 £'000	2020 £'000
Depreciation in excess of capital allowances	731	601
Other short-term timing differences	1,685	1,132
Total	2,416	1,733

During the year ending 28 February 2022, the reversal of deferred tax assets is expected to decrease the corporation tax charge for the year by £896,000. This is primarily due to timing differences in relation to depreciation in excess of capital allowances.

10. Creditors: amounts falling due within one year

	2021 £'000	2020 £'000
Trade creditors	6,377	8,421
Other creditors	26,000	26,000
Corporation tax	732	2,094
Other taxation and social security	5,579	5,180
Accruals	30,144	25,533
Deferred income	12,395	10,974
	81,227	78,202

Other creditors comprise non-interest bearing advance payments from the Group's finance company partners.

Accruals includes £10,740,000 (2020: £12,767,000) in respect of outstanding service plans.

11. Creditors: amounts falling due after more than one year

	2021 £'000	2020 £'000
Bank borrowings	53,832	43,657
Deferred income (note 12)	9,172	10,303
	63,004	53,960

	2021 £'000	2020 £'000
Borrowings are repayable as follows:		
Under 1 year	-	-
1-2 years	-	-
2-5 years	53,832	43,657
	53,832	43,657

The bank borrowings are secured on the assets of the Company and the Group. The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

Notes to the Company Financial Statements (continued)

11. Creditors: amounts falling due after more than one year (continued)

	Within one year £'000	Within two to five years £'000	Total £'000
Bank borrowings	-	53,832	53,832
Trade and other creditors	81,227	9,172	90,399
At 28 February 2021	81,227	63,004	144,231

	Within one year £'000	Within two to five years £'000	Total £'000
Bank borrowings	-	43,657	43,657
Trade and other creditors	78,202	10,303	88,505
At 29 February 2020	78,202	53,960	132,162

12. Deferred income

Deferred income due in greater than one year comprises:

	2021 £'000	2020 £'000
Warranty income	9,172	10,303
	9,172	10,303

Deferred income relates to used car warranty products sold by the Group. These warranty policies can be taken out over 12, 24 or 36 months with income received in advance of this period being released on a straight-line basis over the life of the policies. There is an additional £9,294,000 included in 'Deferred income' in creditors: amounts falling due within one year, in respect of such warranties recognising the amount to be released over the next 12 months (2020: £8,915,000).

13. Called up share capital, share premium, other reserve, treasury share reserve and capital redemption reserve

2021	Ordinary shares of 10p each Number of shares (('000))	Called up Share capital £'000	Share premium account £'000	Other reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Total £'000
At 1 March 2020	367,120	36,917	124,939	10,645	(803)	2,810	174,508
Issuance of treasury shares in satisfaction of exercised share options	40	-	-	-	16	-	16
Purchase of treasury shares	(5,274)	-	-	-	(2,004)	-	(2,004)
At 28 February 2021	361,886	36,917	124,939	10,645	(2,791)	2,810	172,520

All issued shares are fully paid-up.

The other reserve is a merger reserve, arising from shares issued for shares as consideration to the former shareholders of acquired businesses.

Notes to the Company Financial Statements (continued)

13. Called up share capital, share premium, other reserve, treasury share reserve and capital redemption reserve (continued)

2020	Ordinary shares of 10p each Number of shares (‘000)	Called up Share capital £’000	Share premium account £’000	Other reserve £’000	Treasury share reserve £’000	Capital redemption reserve £’000	Total £’000
At 1 March 2019	375,023	37,661	124,939	10,645	(602)	2,066	174,709
Sale of treasury shares	-	-	-	-	200	-	200
Issuance of treasury shares in satisfaction of exercised share options	529	-	-	-	-	-	-
Purchase of treasury shares	(1,000)	-	-	-	(401)	-	(401)
Cancellation of repurchased shares	(7,432)	(744)	-	-	-	744	-
At 29 February 2020	367,120	36,917	124,939	10,645	(803)	2,810	174,508

14. Hedging reserve

	2021 £’000	2020 £’000
Cash flow hedges:		
At beginning of year	(407)	(19)
Fair value losses on derivative financial instruments during the year	(6)	(468)
Deferred taxation on fair value losses during year	10	80
At end of year	(403)	(407)

15. Profit and loss account

	2021 £’000	2020 £’000
As at beginning of year	69,170	82,724
Profit/(loss) for the financial year	5,861	(5,102)
Dividend paid	-	(6,122)
Share based payments charge	373	619
Repurchase of own shares	-	(2,749)
Treasury shares issued	(16)	(200)
As at end of year	75,388	69,170

16. Dividends per share

As a result of the substantial amounts of Government support received and the need to protect the Group's liquidity in the first quarter of the year ended 28 February 2021, the Board did not declare a final dividend for the year ended 29 February 2020, nor any dividend for the financial year ended 28 February 2021. Dividends of £6,122,000 were paid in the year ended 29 February 2020, representing 1.65p per share.

17. Share based payments

For details of share based payment awards and fair values, see note 31 to the consolidated financial statements. The Company financial statements include a share based payments charge for the year of £265,000 (2020: £733,000).

18. Contingencies

See note 36 to the consolidated financial statements for details of contingent liabilities as at the balance sheet date.

Notes to the Company Financial Statements (continued)

19. Directors' remuneration

The remuneration of the Directors who served during the year from 1 March 2020 to 28 February 2021 is set out within the Directors' Remuneration Report on pages 62 to 66.

20. Commitments

The Company leases vehicles under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases is set out below:

Commitments under non-cancellable operating leases payable:	2021 £'000	2020 £'000
No later than 1 year	463	142
Later than 1 year and no later than 5 years	421	318
Later than 5 years	-	-
	884	460

21. Related party transactions

The Company has related party relationships with its subsidiaries and with key management personnel.

Transactions with the Directors of the Company are disclosed in note 38 of the consolidated financial statements.

Alternative Performance Measures

Set out below are the definitions and sources of various alternative performance measures which are referred to throughout the Annual Report. All financial information provided is in respect of the Vertu Motors plc Group.

Definitions

Like-for-like	Dealerships that have comparable trading periods in two consecutive financial years.
FY21	The twelve month period ended 28 February 2021.
FY20	The twelve month period ended 29 February 2020.
Q1 FY21	The three month period ended 31 May 2020.
Q1 FY20	The three month period ended 31 May 2019.
Q2 – 4 FY21	The nine month period ended 28 February 2021.
Q2 – 4 FY20	The nine month period ended 29 February 2020.
Adjusted	Adjusted for amortisation of intangible assets and share based payments, as these are unconnected with the ordinary business of the Group.
Aftersales gross margin	Aftersales gross margin compares the gross profit earned from aftersales activities to the total aftersales revenues, including internal revenue relating to service and vehicle preparation work performed on the Group's own vehicles. This is to properly reflect the real activity of the Group's aftersales department.

Alternative Performance Measures

Adjusted Operating Profit

	2021 £'000	2020 £'000
Operating profit	31,630	16,473
Non-underlying items (note 8):		
Net impairment charges	1,452	14,378
Amortisation (note 16)	436	595
Share based payment charge (note 31)	265	733
Adjusted operating profit	33,783	32,179

Adjusted Net Cash / (Debt)

	2021 £'000	2020 £'000
Cash and cash equivalents	67,828	40,839
Borrowings (note 26)	(72,359)	(69,204)
Net debt (excluding lease liabilities) (note 33)	(4,531)	(28,365)
Used car stocking loans – other borrowings (note 26)	5,948	25,547
Adjusted net cash / (debt)	1,417	(2,818)

Free Cash Flow

	2021 £'000	2020 £'000
Net cash inflow from operating activities	74,920	19,502
Purchase of other property, plant and equipment	(11,844)	(14,180)
Purchase of intangible assets	(264)	(155)
Proceeds from disposal of property, plant and equipment	972	3,255
Principal elements of lease repayments	(15,342)	(13,392)
Free cash flow	48,442	(4,970)

Alternative Performance Measures (continued)

Adjusted Profit Before Tax (PBT)

	2021 £'000	2020 £'000
Profit before tax	22,399	7,317
Non-underlying items (note 8):		
Impairment charges	1,452	14,378
Amortisation	436	595
Share based payment charge	265	733
Adjusted PBT	24,552	23,023

Tangible net assets per share

	2021 £'000	2020 £'000
Net assets	275,940	263,373
Less:		
Goodwill and other indefinite life assets	(99,192)	(99,315)
Other intangible assets	(1,948)	(2,120)
Add:		
Deferred tax on above adjustments	6,764	6,821
Tangible net assets	181,564	168,759
Tangible net assets per share	50.2p	46.0p

At 29 February 2020, there were 369,173,981 shares in issue (2020: 369,173,981) of which, 7,287,304 were held by the Group's employee benefit trust (2019: 2,053,821). Rights to dividends on shares held in the Group's employee benefit trust have been waived and therefore such shares are not included in the tangible net asset per share calculation.

Like-for-like reconciliations:

Revenue

	2021 £'m	2020 £'m
Revenue	2,547.7	3,064.5
Acquisitions	(177.9)	(12.1)
Disposals	(7.0)	(39.1)
Like-for-like revenue	2,362.8	3,013.3

Revenues by department

2021	Q2 – 4 FY21 like-for-like					
	FY21 Group revenue £'m	Q1 FY21 Group revenue £'m	Q2 – 4 FY21 Group revenue £'m	Q2 – 4 FY21 Acquisitions revenue £'m	Q2 – 4 FY21 Disposals revenue £'m	Q2 – 4 FY21 Like-for-like revenue £'m
New car retail and Motability	739.7	132.2	607.5	(56.0)	(4.1)	547.4
New fleet and commercial	578.4	77.1	501.3	(17.9)	-	483.4
Used cars	1,008.4	92.6	915.8	(72.9)	(1.8)	841.1
Aftersales	221.2	30.4	190.8	(16.1)	(0.5)	174.2
Total revenue	2,547.7	332.3	2,215.4	(162.9)	(6.4)	2,046.1

2020	Q2 – 4 FY20 like-for-like					
	FY20 Group revenue £'m	Q1 FY20 Group revenue £'m	Q2 – 4 FY20 Group revenue £'m	Q2 – 4 FY20 Acquisitions revenue £'m	Q2 – 4 FY20 Disposals revenue £'m	Q2 – 4 FY20 Like-for-like revenue £'m
New car retail and Motability	862.5	299.3	563.2	(4.4)	(6.4)	552.4
New fleet and commercial	708.5	225.7	482.8	-	(0.2)	482.6
Used cars	1,235.4	335.2	900.2	(6.3)	(16.5)	877.4
Aftersales	258.1	66.7	191.4	(1.4)	(2.2)	187.8
Total revenue	3,064.5	926.9	2,137.6	(12.1)	(25.3)	2,100.2

Alternative Performance Measures (continued)

Like-for-like reconciliations (continued):

Aftersales revenue by department

2021	Q2 – 4 FY21 like-for-like					
	FY21 Group revenue £'m	Q1 FY21 Group revenue £'m	Q2 – 4 FY21 Group revenue £'m	Q2 – 4 FY21 Acquisitions revenue £'m	Q2 – 4 FY21 Disposals revenue £'m	Q2 – 4 FY21 Like-for-like revenue £'m
Parts	134.5	18.9	115.6	(8.3)	(0.6)	106.7
Accident repair	5.8	0.5	5.3	(1.2)	-	4.1
Parts and accident repair	140.3	19.4	120.9	(9.5)	(0.6)	110.8
Service	122.6	15.7	106.9	(9.1)	(0.2)	97.6
Total aftersales revenue¹	262.9	35.1	227.8	(18.6)	(0.8)	208.4

2020	Q2 – 4 FY20 like-for-like					
	FY20 Group revenue £'m	Q1 FY20 Group revenue £'m	Q2 – 4 FY20 Group revenue £'m	Q2 – 4 FY20 Acquisitions revenue £'m	Q2 – 4 FY20 Disposals revenue £'m	Q2 – 4 FY20 Like-for-like revenue £'m
Parts	164.8	42.4	122.4	(0.6)	(2.0)	119.8
Accident repair	6.4	1.5	4.9	(0.2)	-	4.7
Parts and accident repair	171.2	43.9	127.3	(0.8)	(2.0)	124.5
Service	134.7	35.8	98.9	(0.8)	(1.1)	97.0
Total aftersales revenue¹	305.9	79.7	226.2	(1.6)	(3.1)	221.5

¹ Inclusive of both internal and external revenue

Gross profit ("GP") by department

2021	Q2 – 4 FY21 like-for-like					
	FY21 Group GP £'m	Q1 FY21 Group GP £'m	Q2 – 4 FY21 Group GP £'m	Q2 – 4 FY21 Acquisitions GP £'m	Q2 – 4 FY21 Disposals GP £'m	Q2 – 4 FY21 Like-for-like GP £'m
New car retail and Motability	54.3	11.7	42.6	(3.8)	(0.3)	38.5
New fleet and commercial	23.2	3.6	19.6	(0.8)	-	18.8
Used cars	93.9	7.7	86.2	(5.0)	(0.1)	81.1
Aftersales	129.6	16.5	113.1	(9.4)	(0.3)	103.4
Total GP	301.0	39.5	261.5	(19.0)	(0.7)	241.8

2020	Q2 – 4 FY20 like-for-like					
	FY20 Group GP £'m	Q1 FY20 Group GP £'m	Q2 – 4 FY20 Group GP £'m	Q2 – 4 FY20 Acquisitions GP £'m	Q2 – 4 FY20 Disposals GP £'m	Q2 – 4 FY20 Like-for-like GP £'m
New car retail and Motability	62.7	19.4	43.3	(0.2)	(0.5)	42.6
New fleet and commercial	25.8	7.1	18.7	-	-	18.7
Used cars	102.1	27.8	74.3	(0.5)	(1.0)	72.8
Aftersales	143.5	37.1	106.4	(0.8)	(1.2)	104.4
Total GP	334.1	91.4	242.7	(1.5)	(2.7)	238.5

Alternative Performance Measures (continued)

Like-for-like reconciliations (continued):

Aftersales gross profit by department

2021	Q2 – 4 FY21 like-for-like					
	FY21 Aftersales GP £'m	Q1 FY21 Aftersales GP £'m	Q2 – 4 FY21 Aftersales GP £'m	Q2 – 4 FY21 Acquisitions GP £'m	Q2 – 4 FY21 Disposals GP £'m	Q2 – 4 FY21 Like-for-like GP £'m
Parts	30.3	4.3	26.0	(1.7)	(0.2)	24.1
Accident repair	3.8	0.4	3.4	(0.7)	-	2.7
Parts and accident repair	34.1	4.7	29.4	(2.4)	(0.2)	26.8
Service	95.5	11.8	83.7	(7.0)	(0.1)	76.6
Total aftersales GP	129.6	16.5	113.1	(9.4)	(0.3)	103.4

2020	Q2 – 4 FY20 like-for-like					
	FY20 Aftersales GP £'m	Q1 FY20 Aftersales GP £'m	Q2 – 4 FY20 Aftersales GP £'m	Q2 – 4 FY20 Acquisitions GP £'m	Q2 – 4 FY20 Disposals GP £'m	Q2 – 4 FY20 Like-for-like GP £'m
Parts	35.7	9.0	26.7	(0.1)	(0.5)	26.1
Accident repair	4.4	1.1	3.3	(0.1)	-	3.2
Parts and accident repair	40.1	10.1	30.0	(0.2)	(0.5)	29.3
Service	103.4	27.0	76.4	(0.6)	(0.7)	75.1
Total aftersales GP	143.5	37.1	106.4	(0.8)	(1.2)	104.4

Operating expenses

	FY21			FY20		
	Q1 £'m	Q2 – 4 £'m	FY21 £'m	Q1 £'m	Q2 – 4 £'m	FY20 £'m
Underlying operating expenses (net)	51.2	216.0	267.2	76.2	225.7	301.9
Job Retention Scheme Grant ("JRS Grant")	17.7	10.1	27.8	-	-	-
Underlying operating expenses (gross)	68.9	226.1	295.0	76.2	225.7	301.9

	Q1 FY21				Q1 FY20			
	Total £'m	Acquisitions £'m	Disposals £'m	Like-for-like £'m	Total £'m	Acquisitions £'m	Disposals £'m	Like-for-like £'m
Operating expenses (net)	51.2	(3.6)	(0.3)	47.3	76.2	-	(1.3)	74.9
JRS Grant	17.7	-	-	17.7	-	-	-	-
Underlying operating expenses (gross)	68.9	(3.6)	(0.3)	65.0	76.2	-	(1.3)	74.9

	Q2 – 4 FY21				Q2 – 4 FY20			
	Total £'m	Acquisitions £'m	Disposals £'m	Like-for-like £'m	Total £'m	Acquisitions £'m	Disposals £'m	Like-for-like £'m
Operating expenses (net)	216.0	(20.6)	(0.5)	194.9	225.7	(2.0)	(2.7)	221.0
JRS Grant	10.1	-	-	10.1	-	-	-	-
Underlying operating expenses (gross)	226.1	(20.6)	(0.5)	205.0	225.7	(2.0)	(2.7)	221.0

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