

PINEWOOD TECHNOLOGIES PLC

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

Registered Number : 03542925



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STRATEGIC REPORTYEAR ENDED 31 DECEMBER 2021

The Company is a wholly-owned subsidiary of Pendragon PLC and operates as its Software division.

The Company's principal activity during the year was the sale of computer systems, telecommunication systems and associated support services, principally to motor vehicle retailers in the UK. There have not been any significant changes in the Company's principal activities in the year under review.

The Directors are not, at the date of this report, aware of any likely major changes in the Company's activities in the next year.

As shown in the Company's profit and loss account on page 6, turnover increased by 9.6% from £22,258,000 in the prior year to £24,404,000 in the current year. The profit for the financial year increased by 3.0% from £10,774,000 in the prior year to a £11,096,000 profit in the current year.

The Company has a strong track record and whilst historically the business achieved this growth in the UK, more recently the business has been expanding outside of the UK. We expect to continue to expand globally and accelerate our representation and implementations in a number of countries worldwide. Pinewood has representation in Europe, Africa and Asia Pacific and is actively expanding the business in these territories.

The balance sheet on page 7 of the financial statements shows that the net assets of the Company have increased by £1,096,000 to £32,088,000. This was driven by profit for the year of £11,096,000 less dividends of £10,000,000 paid during the year.

Risks to the business include loss of manufacturer endorsement for Pinewood products and consolidation of the motor industry which could potentially affect the numbers of privately owned motor dealers using Pinewood products. Other risks include fluctuations in general economic conditions, such as interest rate increases, environmental and climate change concerns, legislation, the loss of key personnel, failure of our IT infrastructure or key systems and more recently in 2022 the impact of the war in Ukraine on supply chains and global energy and commodity prices. The Risk Control Group of Pendragon PLC has met to consider these risks and uncertainties and will continue to monitor how these risks evolve. These risks are significant to the group and are also detailed in the group financial statements.

The directors are satisfied that the Company is well positioned to take advantage of future opportunities.

The directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

By order of the Board



M S Willis
Director

29 June 2022

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2021

The directors have pleasure in submitting their report and the audited financial statements of the Company for the year ended 31 December 2021.

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on page 6.

Dividends of £10,000,000 were paid during the year (2020 : £12,000,000). The directors recommend the payment of a final dividend of £14,000,000 subject to approval by the Board of Directors (2020 : £10,000,000).

DIRECTORS

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

M S Willis
W Berman
M S Casha
Pendragon Management Services Limited

EMPLOYEES

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

EMPLOYMENT OF DISABLED PERSONS

The Company recognises its responsibilities in employing and training disabled persons. If any employee becomes disabled it is standard practice, in all but the most extreme circumstances, to offer an alternative job and provide retraining where necessary.

EMPLOYEE INVOLVEMENT

Regular contact and exchanges of information are maintained to keep employees informed of the progress of the business.

The Company participates in policies and practices to keep employees informed on matters relevant to them as employees through appropriate means, such as employee meetings and newsletters.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

RE-APPOINTMENT OF AUDITOR

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board



R J Maloney
Secretary

Loxley House
Little Oak Drive
Annesley
Nottinghamshire
NG15 0DR
29 June 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT AND THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Opinion

We have audited the financial statements of Pinewood Technologies PLC ("the Company") for the year ended 31 December 2021 which comprise the Profit and Loss account, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, and inspection of policy documentation as to the Company's high level policies and procedures to prevent and detect fraud, including the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management/ directors/ sales staff
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular:

- the risk that Company management may be in a position to make inappropriate accounting entries, and
- the risk of bias in accounting estimates and judgements such as capitalised development cost assumptions.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted to unusual accounts.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias

Identifying and responding to risks of material misstatement due to non compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Company's license to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the company management other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Fraud and breaches of laws and regulations – ability to detect - continued*Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



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

29 June 2022

PROFIT AND LOSS ACCOUNT**YEAR ENDED 31 DECEMBER 2021**

Note		2021 £000	2020 £000
2	TURNOVER	24,404	22,258
	Cost of sales	(1,921)	(1,821)
	GROSS PROFIT	22,483	20,437
	Distribution costs	(4,612)	(4,015)
	Administrative expenses	(5,271)	(4,085)
3	OPERATING PROFIT	12,600	12,337
11	Profit on disposal of investments	-	130
	PROFIT BEFORE INTEREST	12,600	12,467
5	Interest payable	(12)	(13)
6	Interest receivable	1,643	994
	PROFIT BEFORE TAXATION	14,231	13,448
7	Tax on profit on ordinary activities	(3,135)	(2,674)
	PROFIT FOR THE FINANCIAL YEAR	11,096	10,774

All amounts relate to continuing operations.

Movements in reserves are shown in the Statement of Changes in Equity on page 8.

There are no amounts to be recognised in a Statement of Other Comprehensive Income and as such no separate statement has been presented. The profit for the financial year represents total comprehensive income for the period.

The notes on pages 9 to 16 form part of these financial statements.

BALANCE SHEET**AT 31 DECEMBER 2021**

Note		2021 £000	2020 £000
	FIXED ASSETS		
9	Intangible assets	10,702	9,427
10	Tangible assets	408	658
11	Investments	2	-
		11,112	10,085
	CURRENT ASSETS		
12	Debtors	30,536	30,379
	Cash at bank and in hand	6	43
		30,542	30,422
13	CREDITORS: amounts falling due within one year	(7,245)	(7,990)
	NET CURRENT ASSETS	23,297	22,432
14	CREDITORS: amounts falling due in over one year	(93)	(1)
15	<i>Provisions for liabilities and charges</i>	<i>(2,228)</i>	<i>(1,524)</i>
	NET ASSETS	32,088	30,992
	CAPITAL AND RESERVES		
16	Called up share capital	18,050	18,050
	Profit and loss account	14,038	12,942
	TOTAL SHAREHOLDERS' FUNDS	32,088	30,992

Approved by the Board of Directors on 29 June 2022 and signed on its behalf by :



M S Willis
Director

Registered Company Number : 03542925

The notes on pages 9 to 16 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITYYEAR ENDED 31 DECEMBER 2021

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2020	18,050	14,168	32,218
Total comprehensive income for 2020			
Profit for the year	-	10,774	10,774
Total comprehensive income for the year	-	10,774	10,774
Transactions with owners, recorded directly in equity			
Dividends paid (see note 8)	-	(12,000)	(12,000)
Total contributions by and distributions to owners	-	(12,000)	(12,000)
Balance at 31 December 2020	18,050	12,942	30,992
Balance at 1 January 2021	18,050	12,942	30,992
Total comprehensive income for 2021			
Profit for the year	-	11,096	11,096
Total comprehensive income for the year	-	11,096	11,096
Transactions with owners, recorded directly in equity			
Dividends paid (see note 8)	-	(10,000)	(10,000)
Total contributions by and distributions to owners	-	(10,000)	(10,000)
Balance at 31 December 2021	18,050	14,038	32,088

The notes on pages 9 to 16 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2021

1 ACCOUNTING POLICIES

(a) Basis of preparation

Pinewood Technologies PLC is a company incorporated, domiciled and registered in England in the UK. The Company's registered number is 03542925 and the registered address is Loxley House, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ("Adopted IFRSs"), but makes amendments where necessary in order to comply Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The financial statements are presented in thousands of UK pounds, rounded to the nearest £1,000. They have been prepared under the historical cost convention and where other bases are applied these are identified in the relevant accounting policy in the notes below.

The Company's ultimate parent undertaking, Pendragon PLC, includes the Company in its consolidated financial statements. The consolidated financial statements of Pendragon PLC are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Company Secretary, Pendragon PLC, Loxley House, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel.
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of Pendragon PLC include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company;
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7 Financial Instrument Disclosures.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Judgements

The Company applies judgement in how it applies its accounting policies, which do not involve estimation, but could materially affect the numbers disclosed in these financial statements. Management use judgement in capitalising development costs as internally generated intangible assets. Management assess whether a product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use of sell the asset. In the current year expenditure of £4,958,000 (2020: £4,265,000) relating to the costs of labour and overhead has been capitalised in development costs. If the development expenditure does not meet the above criteria it is expensed to the income statement."

Accounting estimates

The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The directors consider the following to be the key estimate applicable to the financial statements, which has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year or in the long-term:

Key estimate area	Key assumption	Potential impact within the next financial year	Potential impact in the longer term	Note reference
Capitalised development costs	Capitalised development costs relate to software enhancement are held at cost less amortisation less any impairment. It is considered that this expenditure forms part of one CGU. An impairment exists when its recoverable amount is less than the book value held in the accounts. There are a number of factors which could impact the recoverable amount which is reliant upon it to be able to generate income in the future which may not be certain, which creates a risk of this recoverable amount being lower than the balance held. The period of recovery for amortisation is estimated as five years.	✓	✓	9

NOTES TO THE FINANCIAL STATEMENTS continued**YEAR ENDED 31 DECEMBER 2021****1 ACCOUNTING POLICIES (continued)****(a) Basis of preparation continued****Going concern**

The financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have performed a going concern assessment until December 2023 which indicate that, taking account of reasonably possible downsides and the potential impact of further Covid-19 lockdowns, a macro-economic downturn, a market correction in used car pricing and shortfalls in new car supply resulting from shortages in microchips impacting manufacturing that may affect the company's lessees, its financial resources and the company's ability to access funding through the group's centralised treasury arrangements, the Company will have sufficient funds to meet its liabilities as they fall due for that period.

The assessment is dependent on Pendragon PLC providing additional financial support during that period. Pendragon PLC has indicated its intention to continue to make available such funds as are needed by the company for the period covered by the assessment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The Company participates in the Pendragon group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries, and as a result is dependent on the Pendragon group. As a result, the directors have considered the wider impact on the Pendragon PLC group ("the Group") in their going concern assessment.

The Pendragon group has seen an improved trading position during 2021 as reported in its Annual Report for the year ending 31 December 2021. Despite this, the directors consider that the current economic outlook presents significant uncertainty in terms of sales volume and pricing for the reasons referred to above and the further risk of disruption to supply chains that the conflict in Ukraine presents, but after assessing the risks the directors do not believe there to be a material risk to going concern.

Whilst the Group directors have instituted measures to preserve cash there is uncertainty over future trading results and cash flows. The Group meets its day-to-day working capital requirements from a revolving credit facility of £75m and senior note of £100m together with cash balances and a requirement for on-going access to rolling vehicle credit stocking facilities. The senior note is due for renewal in March 2027 and the revolving credit facility is due for renewal in March 2025, with a further two, one-year options (available at the election of lenders). The senior note and revolving credit facility have quarterly leverage and fixed charge covenants, as well as an absolute EBITDA covenant, a breach of which would result in the amounts drawn becoming repayable on demand. The Group did not make use of government backed borrowing facilities such as the Coronavirus large business interruption loan scheme. The Group remained compliant with its banking covenants throughout the year to 31 December 2021.

In the context of the above, the Group Directors have prepared cash flow forecasts for the period to 31 December 2023 which indicate that, taking account of reasonably possible downsides, the Group will have sufficient funds to meet its liabilities as they fall due for that period.

The Directors of the Company have assessed the conclusions reached by the Group directors and agree with their conclusions.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on page 1.

(b) Turnover. Turnover from the sale of goods is recognised in the profit and loss account, net of discounts, on satisfaction of the Company's performance obligations under the sale contracts, which is when the Company has satisfied its performance obligations to the customer and the customer has obtained control of the goods or services being transferred. In general this occurs when equipment has been supplied or when service has been completed. Turnover from services comprises the provision of software hosting, training and system installation fees and is recognised in the Profit and Loss Account as the services are delivered or utilised.

(c) Intangible assets. Internally generated intangible assets relate to activities that involve the development of dealer management systems by the Company. Development expenditure is capitalised only if development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the costs of labour and overhead costs that are directly attributable to preparing the asset for its intended use. Any expenditure incurred by the research department that does not meet the above criteria is expensed to the income statement.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses and is amortised over a period of five years.

Other intangible assets are stated at cost less accumulated amortisation and any impairment losses. This category of asset, which includes purchased computer software, are amortised by equal instalments over four years.

(d) Property, plant and equipment. Depreciation is provided to write off the cost less the estimated residual value of assets by equal instalments over their estimated useful economic life as follows:

Leasehold properties - 2% per annum or over the period of the lease if less than 50 years
Plant and equipment - 10 to 33% per annum

(e) Investments. Investments held as fixed assets are stated at cost less any impairment losses. For investments the recoverable amount is estimated at each balance sheet date. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

NOTES TO THE FINANCIAL STATEMENTS continued**YEAR ENDED 31 DECEMBER 2021****1 ACCOUNTING POLICIES (continued)**

(f) Trade and other debtors. Trade and other debtors are recognised initially at fair value and are subsequently stated at amortised cost using the effective interest method, less any impairment losses.

(g) Trade and other creditors. Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

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

(i) Impairment excluding stocks and deferred tax assets.

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is measured for impairment losses in accordance with IFRS 9 using an expected credit loss (ECL) model. The impairment model applies to financial assets measured at amortised cost. The calculation of ECLs are a probability-weighted estimate of credit losses. For trade receivables, the Company applies the simplified approach set out in IFRS 9 to measure expected credit losses using a lifetime expected credit loss allowance. The Company considered a trade or other receivables, including intercompany receivables, to be in default when the borrower is unlikely to pay its credit obligations to the Company in full after all reasonable actions have been taken to recover the debt.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the 'cash-generating unit').

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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

(j) Interest receivable and Interest payable. Interest payable and similar charges include interest payable and finance charges on shares classified as liabilities. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

(k) Taxation. Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities.

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

NOTES TO THE FINANCIAL STATEMENTS continued**YEAR ENDED 31 DECEMBER 2021****1 ACCOUNTING POLICIES (continued)****(m) Leases.**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16.

The Company recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. Cost comprises the initial amount of the lease liability adjusted for any initial direct costs incurred less any lease incentives received. Depreciation is recognised on a straight line basis over the period of the lease the right of use asset is expected to be utilised.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease or when this is not readily attainable, the Company's incremental borrowing rate. Lease payments include fixed rental payments and amounts expected to be payable under a residual value guarantee. Generally the Company uses its incremental borrowing rate as the discount rate. The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

The lease liability is subsequently increased by the interest cost on the lease liability and reduced by payments made. It is remeasured when there is a change in future lease payments arising from a change of index or rate, a variation in amounts payable following contractual rent reviews and changes in the assessment of whether an extension/termination option is reasonably certain to be exercised. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(n) Dividends on shares presented within shareholders funds. Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

(o) Government grants are recognised when there is reasonable assurance the grants will be received and the conditions of the grant will be complied with. Income from Government grants during 2021 of £7,000 (2020: £428,000), being the Coronavirus Job Retention Scheme, is included within payroll expenses.

2 TURNOVER

The Company principally generates turnover from the supply of dealer management systems to motor vehicle dealers. These systems include consultancy, training and installation services and the right to use the Company's software over a contractual period. Products and services may be sold separately or in bundled packages. Examples of a bundled package will include system consultancy, on and off site training for users together with the right for a number of users to use the software. For bundled packages, the Company accounts for individual products and services separately as they are distinct items, as each performance obligation within that contract is separately identifiable from other items in the bundled package. The consideration is allocated between separate products and services in a bundle based on their stand-alone selling prices. The stand-alone selling prices are determined based on the list prices at which the Group sells these items and are separately identified on the customer's contract and subsequent invoice. Full details of these elements of the Company's turnover are provided in the consolidated financial statements of Pendragon PLC for the year ended 31 December 2021.

Turnover by major products/service lines	2021	2020
	£000	£000
Dealer management systems and support	24,404	22,258
Turnover from external customers	24,404	22,258
Timing of turnover recognition	2021	2020
	£000	£000
At point in time	2,665	1,298
Over time	21,739	20,960
Turnover from external customers	24,404	22,258
Primary geographical markets	2021	2020
	£000	£000
UK and Europe	23,747	21,628
Africa	464	446
Asia Pacific	193	184
Turnover from external customers	24,404	22,258
Contract balances	2021	2020
	£000	£000
Contract liabilities	4,096	4,157

External customers includes other companies in the Pendragon PLC group.

Contract liabilities relate to advance consideration received from customers for the software as a service product for which revenue is recognised over time. This will be recognised as revenue when the customers use the service in the next financial year. Contract liabilities are included within Accruals and deferred income in Creditors: amounts falling due within one year.

There are no contract assets.

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2021

3 OPERATING PROFIT

Operating profit has been arrived at after charging the following to the Profit and Loss Account:

	2021 £000	2020 £000
Depreciation of tangible fixed assets - owned	131	208
Depreciation of tangible fixed assets - leased	536	475
Amortisation of intangible assets	3,695	3,267
Research and development expenditure	1,003	758
Auditor's remuneration- audit	20	20

There are no amounts receivable by the Company's auditor in respect of services to the Company and its associates, other than the audit of the Company's financial statements.

4 EMPLOYEES

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

	2021 Number	2020 Number
Sales	48	50
After sales	87	91
Administration	57	59
	192	200

Costs incurred in respect of these employees were :

	2021 £000	2020 £000
Wages and salaries	7,231	6,829
Less - receipts from the Government Coronavirus Job Retention Scheme	(7)	(428)
Social security costs	756	687
Other pension costs	429	388
	8,409	7,476

No director of the Company received or waived any remuneration for services to the Company during the year (2020 : £nil).

The directors are employed by Pendragon PLC and full details of their remuneration can be found in the Directors Remuneration Report section of that company's annual report. A management charge is levied on the Company which incorporates an element of recharge for the remuneration of the directors amounting to £22,000 (2020 : £18,000).

5 INTEREST PAYABLE

	2021 £000	2020 £000
Lease interest payable	12	13

6 INTEREST RECEIVABLE

	2021 £000	2020 £000
Intra group interest receivable	1,641	994
Bank interest receivable	2	-
	1,643	994

7 TAXATION

	2021 £000	2020 £000
UK corporation tax at the UK average statutory rate of 19.00% (2020 : 19.00%)		
Current tax on income for the year	2,430	2,310
Adjustments in respect of prior periods	1	1
Total current tax	2,431	2,311

Deferred taxation:

Origination and reversal of temporary differences	703	362
Adjustments in respect of prior periods	1	1
Total deferred tax	704	363

Tax on profit on ordinary activities	3,135	2,674
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Factors affecting tax charge for the period:

	2021 £000	2020 £000
The tax assessed is higher (2020 : higher) than the standard rate of corporation tax in the UK of 19.00% (2020 : 19.00%). The differences are explained below:		

Profit on ordinary activities before tax	14,231	13,448
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Tax on profit at the UK average statutory rate of 19.00% (2020 : 19.00%)	2,704	2,555
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Effects of:

Expenses not deductible in determining taxable profit	2	(178)
Permanent differences arising in respect of fixed assets	-	5
Dividend income	-	153
Adjustments to tax charge in respect of previous periods	2	2
Impact of corporation tax rate change	427	137

Tax on profit on ordinary activities	3,135	2,674
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The UK tax rate applying throughout 2021 was 19%, this rate is set to increase to 25% on 1 April 2023. The rate change to 25% was substantively enacted on 24 May 2021 and as such the deferred tax assets and liabilities forecast to remain at 31 March 2023 have been revalued to 25%. The remeasurement of a portion of the deferred tax asset gives a tax charge to the income statement of £427,000.

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2021

8	DIVIDENDS	2021	2020
		£000	£000
	Ordinary shares		
	Final dividend paid - £0.6554 (2020 : £0.665) per share	10,000	12,000

9	INTANGIBLE ASSETS		Development costs	Other intangibles	
			£000	£000	Total £000
	Cost				
	At 31 December 2020		19,225	627	19,852
	Additions		4,958	12	4,970
	At 31 December 2021		24,183	639	24,822
	Amortisation				
	At 31 December 2020		9,811	614	10,425
	Charge for the year		3,684	11	3,695
	At 31 December 2021		13,495	625	14,120
	Net book value				
	At 31 December 2021		10,688	14	10,702
	At 31 December 2020		9,414	13	9,427

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

Capitalised development costs are not treated as a realised loss for the purpose of determining the Company's distributable profits as the costs meet the conditions requiring them to be treated as an asset in accordance with IAS 38.

10	TANGIBLE FIXED ASSETS		Leasehold property owned	Leasehold property leased	Plant & equipment owned	Motor vehicles leased	
			£000	£000	£000	£000	Total £000
	Cost						
	At 31 December 2020		307	1,654	1,966	218	4,145
	Additions		4	-	43	370	417
	Disposals		-	-	-	(199)	(199)
	At 31 December 2021		311	1,654	2,009	389	4,363
	Depreciation						
	At 31 December 2020		273	1,302	1,784	128	3,487
	Charge for the year		29	352	102	184	667
	Disposals		-	-	-	(199)	(199)
	At 31 December 2021		302	1,654	1,886	113	3,955
	Net book value						
	At 31 December 2021		9	-	123	276	408
	At 31 December 2020		34	352	182	90	658

11	INVESTMENTS	
		Shares in subsidiary undertakings
		£000
	Cost	
	At 31 December 2020	-
	Additions	2
	At 31 December 2021	2
	Net book value	
	At 31 December 2021	2
	At 31 December 2020	-

Shares in subsidiary undertakings are stated at cost. Pinewood Technologies PLC owns directly 100% of the issued ordinary share capital of Pinewood Computers Limited, which is incorporated in the United Kingdom and has a registered office at Loxley House, Little Oak Drive, Annesley, Nottinghamshire, NG15 0DR.

Incorporated in Great Britain having a registered office at Loxley House, 2 Little Oak Drive, Annesley, Nottingham, NG15 0DR:

Company	Principal Activity
Pinewood Technologies Northern Europe AB	Software distributor

In March 2021 the Company has formed a new company registered in Sweden, Pinewood Technologies Northern Europe AB by subscribing for 100% of the issued share capital of £2,159.

During the previous year, Evans Halshaw Vehicle Management Services Limited, was voluntarily struck off the Register of Companies. A profit on disposal arose of £130,000 from the final distribution of that company.

NOTES TO THE FINANCIAL STATEMENTS continued

YEAR ENDED 31 DECEMBER 2021

12 DEBTORS

	2021	2020
	£000	£000
Trade debtors	1,687	1,701
Amounts owed by group undertakings	28,124	27,935
Other debtors	649	637
Prepayments	76	106
	30,536	30,379

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

13 CREDITORS : amounts falling due within one year

	2021	2020
	£000	£000
Lease liabilities	191	486
Payments received on account	46	123
Trade creditors	268	911
UK Corporation tax	593	652
Other taxation and social security	782	721
Accruals and deferred income	5,365	5,097
	7,245	7,990

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

14 CREDITORS : amounts falling due in over one year

	2021	2020
	£000	£000
Lease liabilities	93	1

15 DEFERRED TAX

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

	2021	2020
	£000	£000
Deferred tax assets	283	263
Deferred tax liabilities	(2,511)	(1,787)
	(2,228)	(1,524)

The movement in the deferred tax (liabilities)/assets for the year is as follows:

	Accelerated capital allowances £000	Other short term temporary differences £000	Total £000
At 1 January 2020	252	(1,413)	(1,161)
Charged to income statement	(4)	(359)	(363)
At 31 December 2020	248	(1,772)	(1,524)
At 1 January 2021	248	(1,772)	(1,524)
Charged to income statement	35	(739)	(704)
At 31 December 2021	283	(2,511)	(2,228)

The deferred tax liability in other short-term temporary differences relates to the capitalised development costs on which a tax deduction is taken at the point the costs are incurred

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

16 CALLED UP SHARE CAPITAL

	2021	2020
	£000	£000
Allotted, called up and fully paid :		
18,050,000 (2020 : 18,050,000) ordinary shares of £1 each	18,050	18,050

NOTES TO THE FINANCIAL STATEMENTS continued**YEAR ENDED 31 DECEMBER 2021****17 LEASING**

Lease liabilities	2021 £000	2020 £000
Balance at 1 January	487	894
Additions to right of use assets	370	19
Interest expense related to lease liabilities	12	13
Repayment of lease liabilities (including interest element)	(585)	(439)
Balance at 31 December	284	487
Non-current	93	1
Current	191	486
	284	487
Amounts recognised in profit or loss	2021 £000	2020 £000
Depreciation of right of use assets	536	475
Interest on lease liabilities	12	13
Expenses relating to low value and short-term leases	-	-
	548	488

The Company leases a property. In addition there are other leases in respect of items of plant and equipment which includes the rental of motor vehicles. None of the leases includes contingent rentals.

18 CONTINGENT LIABILITIES

The Company is party to a multi-lateral cross guarantee in respect of the indebtedness of Pendragon PLC and its UK subsidiaries in favour of certain lenders to the Group.

Under those arrangements, the Company participates in an arrangement in which the aggregate of all bank balances cannot be overdrawn and the aggregate of all overdrawn accounts with that lender cannot exceed £5,000,000.

The Company has a net cash balance of £6,000 at 31 December 2021 that guarantees the overdrafts of other companies party to the same arrangement.

19 PENSIONS

The defined contribution pension scheme was closed at the end of April 2006 and replaced by an alternative defined contribution scheme (group stakeholder arrangement). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The Company is a member of a funded group wide pension scheme, the Pendragon Group Pension Scheme providing benefits based on final pensionable pay. There is no stated policy for allocating assets and liabilities in relation to the scheme and therefore the Company accounts for its contributions on a straight line basis. At 31 December 2021 the scheme had a deficit on an IAS 19 basis of £23,600,000 (2020 : £75,500,000).

The Pendragon Group Pension Scheme is a funded defined benefit scheme that was set up during 2012 to receive the assets and liabilities of the Pendragon Group's previous six defined benefit schemes. The Scheme's actuarial valuation was carried out as at 31 December 2018 using the defined accrued benefits funding credit method. At this date the market value of the Scheme's assets was £418.1m; these assets represented 78% of the value of the technical provisions of £535.2m (excluding any defined contribution assets). The main assumptions used for this valuation were that the annual rate of return on existing investments would be 2.47% and the annual rate of pension increases would be between 2.65% - 3.45%. The employer contributions paid to the Scheme during the year was based upon actuarial advice.

The triennial valuation of the pension scheme reflecting the position as at 31 December 2018 was agreed by the Trustees on 17 March 2020. This has resulted in the Pendragon group raising its annual contribution to the pension scheme to £12.5m from 1 January 2020 from £7.0m in the prior year and will increase by 2.25% per annum. The next triennial valuation of the pension scheme will reflect the position as at 31 December 2021.

To comply with the Government's automatic enrolment legislation, the Company chose to participate in the People's Pension Scheme in April 2013. This is a defined contribution occupational pension scheme provided by B&CE.

The pension charge cost in respect of the group stakeholder arrangement and the People's Pension Scheme for the year was £429,000 (2020 : £388,000).

20 ULTIMATE PARENT COMPANY

The Company is a subsidiary undertaking of Pendragon PLC which is the ultimate parent company incorporated in the UK.

No other group financial statements include the results of the Company