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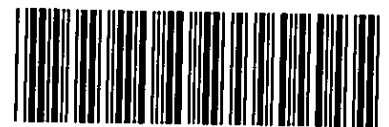
# ANNUAL REPORT & ACCOUNTS

For the year ended 29 February 2012

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...built on trust

THURSDAY



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COMPANIES HOUSE

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## **Financial Diary**

Annual General Meeting	24 July 2012
Interim Results 2012/13	17 October 2012
Final Results 2012/13	May 2013

Vertu Motors plc Mission Statement

"To deliver an outstanding customer motoring experience through honesty and trust"

## Chairman's Report

Since flotation in December 2006, the Group has established itself as a major player in the United Kingdom automotive retail sector. The Group operates 78 sales outlets and this rapid progress to a scaled business is evidenced by the Group reporting revenues in excess of £1bn for the first time.

The Board has maintained a consistent strategy since flotation to grow a scaled motor dealership Group and has achieved this in its volume franchises in the UK. The highly fragmented nature of the automotive retail sector means that significant growth remains possible through continued strategic acquisitions. In addition, in the medium term the Board will seek to broaden the franchises held by the Group into the premium segment. This will provide a balanced portfolio as the Group seeks to mirror the market share of manufacturers in the UK in the Group's portfolio of franchised dealerships.

The Group's strategy is to deliver enhanced business performance from acquired dealerships through the implementation of consistent business processes and systems. Dealership management quality is a critical factor and the recruitment, development and retention of high performing motor retail professionals is of paramount importance. The Group's culture and strategy is to encourage, develop and retain top performers. The success of this strategy can be seen in the fast pace of growth since the first acquisition in 2007 and the turnaround of acquired dealerships achieved to date notwithstanding periods of challenging and volatile markets. The acquisitions undertaken in recent periods have still to reach maturity in terms of performance and this should enable the Group to deliver further organic profit growth over the medium term.

Our objective has been to enhance the experiences of our customers and, in turn, secure significant gains in vehicle sales market share in our local territories. The increasing local vehicle parc being created, coupled with high levels of customer retention, then drives higher aftersales activity levels allowing the Group to deliver improvements in profitability. The Board believes operational gearing benefits will further accelerate profitability as the United Kingdom economy recovers over the next few years and new car volumes rise. Over two million new car sales per annum are required to maintain the current size of the total UK vehicle parc and in 2012 the market is expected to be below this level again.

Industry observers believe UK GDP growth of 2% or over would generate the necessary consumer confidence to see new car sales increase to over 2 million. The SMMT forecasts this to occur in 2014. The strengthening of sterling would also aid UK volumes of new cars by making the UK a more profitable market for the global manufacturers and enabling potential new car price reductions. The potential for higher activity is likely to go hand in hand with the continued contraction in the number of franchised outlets in the UK as economic and structural pressures are played out. In the medium term the Board believes that higher activity levels will be undertaken through franchised networks with a reduced number of outlets with resulting operational gearing benefits for those retailers that remain.

Historically high fuel costs continue to shape the market for new and used cars encouraging consumers to change their cars for more efficient newer models. Such inflationary pressures are also reducing the number of miles driven in the UK each year which is having an impact in the wider market for aftersales services particularly in the accident repair segment. Substantial increases in insurance costs in recent years are having similar effects and younger people are increasingly finding it difficult to enter the car market at the same stage their parents did. Free insurance offers by manufacturers help overcome these trends and the use of telematics by insurance providers to price risk and monitor driving behaviour may come into play in the next few years in response.

## Chairman's Report (continued)

The Group continued to expand in the year through acquisitions with eight outlets opened at new locations or acquired. These generated a further £44m of revenue in the year ended 29 February 2012 and contributed an operating loss of £0.8m. In part this reflected the start-up nature of a number of the operations and historic underperformance in others. In addition the fact that all acquisitions in the year were acquired after the peak trading month of March also contributed to these losses. The Board expects these dealerships to contribute an improved performance in 2012/13. Post year-end, five sales outlets were closed by the Group. These were small outlets which formed part of larger multifranchised businesses. No locations ceased operations as part of these changes and the Board anticipates the changes to be earnings neutral in 2012/13.

The Group's robust balance sheet position with net cash of £3.5m at 29 February 2012 and committed debt facilities of an additional £35m enables further expansion to be undertaken from existing resources. The Board is committed to continuing to build a sustainable, scalable business to deliver shareholder value in a fragmented market.

### Current Trading and Outlook

The Group has traded ahead of the prior year in March and April reflecting stronger activity levels and increased contribution from recently acquired dealerships.

March is the most important month for the profitability of UK motor retail as a consequence of the plate change and its impact on new car demand. UK new car registrations to private buyers ("the retail market") in March and April increased by 9.1% as consumer confidence recovered – a trend seen from January 2012 onwards. The Group's like-for-like new retail volumes increased by 4.1% and manufacturer targets were achieved at a high level reflecting the strong penetration of the local retail markets. Profitability from new retail sales moved forward strongly as a consequence.

The Group's like-for-like used retail volumes rose 9.8% year-on-year in March and April. Margins were stable and combined with the volume increases the Group delivered an enhanced profit performance in used cars. Dealerships acquired in recent years are also exhibiting improved used car returns as the Group's systems and the training of management come together.

Service profitability since the year-end has run ahead of the prior year and continues to benefit from the customer retention initiatives being executed by the Group. The accident repair sector continues to exhibit significant volume and margin weakness and this is having a knock on impact to trade parts volumes.

Notwithstanding the challenging and volatile economic backdrop, the improved market conditions seen in 2012 coupled with increasing evidence of the sustained turnaround of acquired businesses give the Board confidence in the Group's prospects for the remainder of the financial year. Investment in growth remains at the top of the Board's agenda and the Group has a strong pipeline of acquisition opportunities. These potential transactions are likely to lead to a further expansion of the Group's number of sales outlets in the coming months.

### Dividends

Last year as a consequence of the cash generation of the underlying business, the Company commenced the payment of a dividend to shareholders. The Board is mindful of the Group's strong financial position in its decision and has proposed a final dividend of 0.4 pence per share. Taken together with the interim dividend of 0.2 pence per share, this provides a total dividend for the year of 0.6 pence per share – an increase of 20%.

P R Williams  
Non-Executive Chairman

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Vertu Motors plc



## Chief Executive's Review

### Portfolio Development

During the year the Group expanded the number of sales outlets from 75 to 83 sales outlets through acquisitions and the opening new start-up dealerships. Subsequent to the year-end, five sales outlets in multi-franchise locations have been closed so the Group now operates 78 sales outlets from 66 locations. It is envisaged that the ending of operations of these five smaller franchise sales outlets will be earnings neutral. Aftersales operations have been retained at these locations for the exited franchises.

The current dealership portfolio is summarised below

<b>Dealership Numbers</b>	<b>May 2012</b>	<b>May 2011</b>
<b>Car Franchises</b>		
Ford	20	20
Vauxhall	11	10
Peugeot	8	8
Honda	5	5
Citroen	4	4
Mazda	4	4
Nissan	4	2
Hyundai	4	3
SEAT	3	3
Fiat	2	2
Renault	2	5
Alfa Romeo	1	1
Chrysler Jeep	1	-
Mitsubishi	1	1
Chevrolet	-	1
	<b>70</b>	<b>69</b>
<b>Commercial Vehicle Franchises</b>		
Iveco	3	3
Fiat	1	1
	<b>4</b>	<b>4</b>
<b>Motorcycle Franchise</b>		
Honda	1	1
<b>Non-Franchised Outlets</b>		
Bristol Street Motor Nation	3	3
<b>Total Sales Outlets</b>	<b>78</b>	<b>77</b>

The Group added two new Nissan dealerships in the year at Widnes and Glasgow. Widnes was acquired through the acquisition of Widnes Car Centre Limited (1994) in August 2011 and includes the freehold property of the dealership. Glasgow Nissan opened in July 2011 in new premises developed by the Group on acquired freehold land. This flagship dealership includes sales of electric vehicles and a Nissan Sports Performance Centre. The Group now operates four Nissan dealerships.

The Group acquired the trade and assets relating to Northampton Vauxhall in January 2012. The Northampton opportunity is significant and as part of the acquisition, two Vauxhall dealerships in the town were consolidated into one. The Group is currently developing an acquired freehold site in Northampton as a new Vauxhall dealership. Operations are expected to be relocated to the new dealership before the end of the year. The Group now operates 11 Vauxhall dealerships.

## Chief Executive's Review (continued)

### Portfolio Development (continued)

Alongside the development of the new Vauxhall dealership in Northampton, the Group will complete this month the development of a new flagship Vauxhall brand centre at Chingford, North London. The existing Ilford Vauxhall dealership will relocate to Chingford and the Ilford Chevrolet sales outlet is ceasing operations. Vauxhall have introduced their first electric vehicle, Ampera, and have chosen 23 UK locations to retail the product from Chingford and the Group's Newcastle Vauxhall brand centre represent two of the 23 locations.

The Group strengthened its links with the Volkswagen Group through the acquisition of Barnsley SEAT in April 2011. This freehold dealership has subsequently been refurbished and brings the number of SEAT dealerships operated by the Group to three. A similar strengthening of the Group's relationship with Hyundai took place with the opening of a new dealership in Peterlee. Hyundai continues to develop its product range and grow its vehicle parc rapidly. The Group now has four Hyundai sales outlets.

In June 2011 the Group purchased the Bristol Mazda dealership. This dealership is in an excellent location in leased premises. Subsequently, the Chrysler Jeep franchise has been added to the operation – a new franchise to the Group and one closely aligned to the Group's existing Fiat Group operations.

In December 2011 Renault announced a review of its UK dealer network in a bid to improve dealer and manufacturer profitability in the face of declining sales volumes. The Board evaluated the Group's Renault operations and agreed with Renault that the Group would exit Renault sales operations at Altrincham, Macclesfield and Darlington, retaining aftersales operations for the brand at each of these locations. These three sales outlets were multi-franchised alongside Nissan, Ford and SEAT respectively and these dealerships will be refurbished to become solus dealerships for sales. These changes took effect on 1 April 2012 and the Group retains Renault sales outlets in Exeter and Gloucester following the changes.

In April 2012 Mazda also announced a review of its UK dealer network and the Group agreed with Mazda the closure of the Glasgow Mazda sales outlet at the end of April. The dealership continues as a solus Ford operation.

The Group's acquisition strategy of purchasing underperforming businesses dilutes earnings in the periods immediately following acquisition and this is exacerbated by the likely impact of missing the profitable March period in the financial year of acquisition. The track record of turning businesses around is, however, strong and the lower margins exhibited by the newly acquired business represent a significant opportunity for the Group to drive organic earnings growth in the coming years. This remains very much the case today.

The Group continues to develop relationships with franchises not currently held by the Group in order to seek to diversify its franchise portfolio. The medium term strategy of the Group is to develop a balanced portfolio which matches the market shares obtained by manufacturers in the UK.

The Board has always sought to balance those dealerships in freehold and leasehold properties. As at 29 February 2012, freehold locations accounted for 48% of total Group locations (2011 48%).

# Chief Executive's Review (continued)

## Operating Review

### **Digital Operations**

In common with other retail sectors, the internet is gradually transforming the shape of the business. In vehicle sales, web presence and digital marketing are vital in order to secure customer enquiries to be fulfilled through the dealership network. For example, in the three months to March 2012 the Group saw an increase in enquiries from the internet on used cars of 21.4%. This drove an increase of 29.3% in sales through this channel as improvements in lead handling processes improved conversion rates. These trends reflected the general increase in the importance of the internet in vehicle marketing and also the effectiveness of the Group's digital strategy. According to Experian's Hitwise report, in March 2012 the Group took the third highest level of web traffic amongst the UK franchise dealer groups and therefore punches above its weight.

As part of the ongoing investment in the digital platform, the Group acquired Compare Click Call Limited in November 2011. This acquisition provides the Group with a number of well-optimised new car sales websites promoting leasing offers to consumers. The principal website acquired was [www.leasecarsdirect.com](http://www.leasecarsdirect.com) which provides enquiries to Group and non-group franchised dealerships. The Board believes that further development of the acquired digital real estate will drive further sales of new vehicles.

Digital investment in the aftersales area continues through online bookings (now averaging 600 per month), use of email in customer retention communication and internet marketing to win new service customers. The importance of these activities will only increase over time.

### **Dealership Operations**

Revenue in the year increased to £1,088.3m (2011: £998.9m) reflecting the impact of acquisitions made during the year and the full year impact of prior year acquisitions. Like-for-like revenues declined by £18.0m. Market conditions in vehicle sales softened from April 2011 as consumer confidence in the UK declined sharply for the remainder of the calendar year. This resulted in reduced demand levels for new and used cars from private buyers together with associated greater falls in used car prices than experienced in the previous two years. Despite these market conditions, overall gross margins remained stable at 11.9%.

Adjusted<sup>1</sup> EBITDA increased to £12.3m compared to £12.1m in the year ended 28 February 2011. Profitability growth included a £1.2m increased contribution from acquisitions made in the year ended 28 February 2011. This was partly offset by the losses of £0.8m (2011: £1.0) relating to acquisitions made in the current year. Adjusted<sup>1</sup> operating profits declined by £0.3m from £8.7m to £8.4m as market conditions in vehicle sales softened and prior year comparatives in the first half included the positive impact of the Government Scrappage Scheme which ended in the summer of 2010. Importantly, aftersales operations saw a like-for-like increase in profitability of £0.7m year-on-year.

First half adjusted<sup>1</sup> operating profit fell from £5.6m to £4.9m whilst in the second half adjusted<sup>1</sup> operating profit rose from £3.1m to £3.7m, re-establishing forward profit momentum. This improvement resulted from stronger market conditions in 2012 and enhanced performances from new businesses as they were integrated into the Group.

<sup>1</sup> Adjusted for exceptional charges, amortisation of intangible assets and share based payments charge

## Chief Executive's Review (continued)

### Operating Review (continued)

Vehicle Unit Sales Analysis	2012	2012	2012	2011	Like-for-Like % Variance
	Core	Acquired <sup>2</sup>	Total	Total <sup>3</sup>	
New Retail	19,603	5,797	25,400	22,265	(3.5)
Fleet and Commercial	17,279	584	17,863	16,925	4.0
<b>Total New</b>	<b>36,882</b>	<b>6,381</b>	<b>43,263</b>	<b>39,190</b>	<b>(0.3)</b>
Used Retail	31,874	8,238	40,112	36,317	(1.8)
	<b>68,756</b>	<b>14,619</b>	<b>83,375</b>	<b>75,507</b>	<b>(1.0)</b>

2 Relates to businesses acquired or developed subsequent to 1 March 2010

3 2011 volumes include businesses acquired in the year ended 28 February 2011

Revenue and Margins	Year ended 29 February 2012			Year ended 28 February 2011		
	Revenue £m	Revenue %	Gross Margin %	Revenue £m	Revenue %	Gross Margin %
New car retail	330.9	30	7.4	291.6	29	7.5
New fleet and commercial	270.1	25	2.3	258.9	26	2.4
Used cars	374.8	34	11.1	345.0	35	11.3
Aftersales	112.5	11	41.7 <sup>4</sup>	103.4	10	40.8 <sup>4</sup>
	<b>1,088.3</b>	<b>100</b>	<b>11.9</b>	<b>998.9</b>	<b>100</b>	<b>11.9</b>

4 margin in aftersales expressed on internal and external turnover

New retail car volumes fell by 3.5% in the year on a like-for-like basis. This compared to a market decline of 11.9% in UK private new car registrations. The Group's operations performed well in the period, delivering above national average penetrations of new car sales for our manufacturer partners in the majority of the Group's dealerships. The Group achieved a 3.1% market share of the new retail car market compared to 2.4% in 2011 as the Group's number of outlets also increased.

Gross margin percentages in new retail car sales slightly declined at 7.4% (2011 7.5%) with new prices remaining at high levels reflecting the weakness of sterling and commodity price pressures. The combination of the resultant high pricing by manufacturers and reduced consumer appetite clearly impacted the volume of sales in the retail market and this led to underlying margin pressures. This was offset by improvements in the margins obtained in dealerships acquired in recent years which are now approaching the Group average.

New car fleet registrations in the UK rose 4.4% in the year whilst the Group saw like-for-like car fleet volumes decline by 2.4%. The Group's car fleet activities have historically been dominated by large volumes to the daily rental sector and this has made Bristol Street Motors one of the strongest fleet operators in the UK for many years. As manufacturers have sought to regain profitability in the wake of currency movements, volumes to the low margin daily rental sector have been successively reduced. Supplies of cars to the contract hire and corporate market by the Group increased in the year but did not offset the fall in daily rental volumes.

## Chief Executive's Review (continued)

### Operating Review (continued)

The Group benefited from an improvement in the market for light and heavy commercial vehicles over the period with like-for-like Group volumes of commercial vehicles up 11.6% on top of last year's growth of 12.1%. This is in line with the growth of the UK market which rebounded after a number of years of weakness. In January and February 2012 the UK light van market again saw year-on-year declines in commercial registrations in a reversal of the trends of the last two years.

The Group's margin percentages in the fleet and commercial sector were marginally down in the period at 2.3% (2011 2.4%). Margins in the first half were reduced compared to the average for recent years. This reflected reduced incentive support levels from vehicle manufacturers under pressure from the exchange rate weakness of sterling. In the second half margins rose to above historical norms as increased contract hire car sales and higher margin commercial sales enriched the sales mix.

The Group's used car operations saw an improved performance in the second half of the financial year. Used vehicle volumes declined by 1.8% on a like-for-like basis in the financial year having recovered from a decline of 5.9% in the first half of the year. Used car demand fell off from April 2011 until the end of the calendar year. 2012 has seen a return to more normal levels of demand. Margins followed a similar trend to demand and were weaker in the first half. This was a consequence of weaker market demand resulting in sales prices being constrained for anything other than small, cheaper cars together with above average declines in used car values over the summer months. There was a recovery in the second half as conditions normalised. Overall used car margins declined from 11.3% to 11.1%.

Recently acquired dealerships have significantly lower used car margins than those obtained in the core business. These businesses generated a used car gross margin in the year of 9.1% compared to the core business margin of 11.4%. The lower margin in newly acquired businesses reflects the Group's strategy to drive volumes post-acquisition and the previously underperforming nature of the majority of the Group's acquired businesses. As Group management processes, training and systems on used cars embed over time in these new businesses, then used car margins are expected to converge on those achieved by the Group as a whole. A further industry used car metric is return on investment and the Group outperforms the industry average of 74% (Source ASE) in this area. The core dealerships of the Group averaged 146% in the year and recently acquired dealerships averaged 112%. Again this highlights the future profit improvements from acquisitions that the Group expects to obtain going forward.


The Group's aftersales operations comprise servicing, accident repair centres and parts supply. The strategy of the Group is to increase customer retention in these high margin areas through continuing the execution of a number of core strategies. These include a focus on driving increased car sales to build a local vehicle parc which is then marketed to via a sophisticated customer relationship management process. Further retention is driven through the extensive sale of service plans and delivering an outstanding customer experience, for example committing to clean every car during every visit to a service department. Linked to customer retention, the Group has an extensive programme to improve customer satisfaction and every colleague in the Group has a financial incentive to deliver an outstanding level of customer service.

## Chief Executive's Review (continued)

### Operating Review (continued)

The Group saw like-for-like gross profits in aftersales grow by £0.7m in the period. This growth was driven by increased retail revenues in the service area as more new and used car customers were retained back into the Group's service operations. In addition sales of additional products such as tyres, engine flush and oil were increased. Overall aftersales margins improved from 40.8% to 41.7% on the back of stronger parts margins. The strengthening of parts margins was partly a function of reduced revenues in the trade parts supply business to accident repair centres. The accident repair centre sector was negatively impacted by well documented reductions in accident rates and consequently reductions in activity, a trend seen in the Group's accident repair centres but to a lesser degree than the market fall.

Operating expenses and interest charges are commented on in the Finance Director's report below.



**Robert Forrester**  
Chief Executive

## Finance Director's Review

### Operating expenses and interest charges

Motor retail is a low margin business and consequently vigorous cost control is of paramount importance and a key component in the turning round of underperforming business acquired by the Group. Costs are benchmarked on a monthly basis for every dealership against accepted industry key performance indicators to identify opportunities for profit improvement. In addition, our central purchasing function has continued relentlessly to pursue and achieve savings and efficiencies in the procurement of all goods and services not-for-resale.

Operating expenses rose from £110.1m to £121.0m reflecting the increasing size of the Group and operating expenses as a percentage of revenues remained stable at 11.1% (2011: 11.0%). Underlying operating expenses declined by £1.5m. Property expenses relating to rates rises and rent reviews rose by £0.7m, however this was more than offset by reduced management incentives resulting from the lower than anticipated profits and the geared nature of the Group's management remuneration packages.

The Group generated operating profit before amortisation, share based payments charge and exceptional costs of £8.4m (2011: £8.7m) in the period, of which £3.7m (2011: £3.1m) was generated in the second half of the year as forward profit momentum was re-established.

Depreciation overall rose £0.5m from £3.4m to £3.9m. This increase related entirely to new businesses acquired or started during the last two years.

Net finance costs in the period increased by £0.7m to £1.1m (2011: £0.4m) due to higher net vehicle stocking interest incurred in the second half of the year as set out in the table below.

	Year ended 29 February 2012			Year ended 28 February 2011		
	Total £m	H2 £m	H1 £m	Total £m	H2 £m	H1 £m
New vehicle stocking interest (payable)/receivable	(0.3)	(0.4)	0.1	0.6	0.5	0.1
Bank interest payable	(0.7)	(0.3)	(0.4)	(0.6)	(0.3)	(0.3)
Pension fund net interest cost	(0.1)	-	(0.1)	(0.2)	(0.1)	(0.1)
Recycling of cash flow hedge	-	-	-	(0.2)	-	(0.2)
	<b>(1.1)</b>	<b>(0.7)</b>	<b>(0.4)</b>	<b>(0.4)</b>	<b>0.1</b>	<b>(0.5)</b>

The Group's consignment stocking arrangements with manufacturers become interest bearing after certain stock holding periods. Increased costs were incurred as the new vehicle sales rate slowed with market softening from April 2011 onwards and the stocking pipeline of new vehicles extended. In H2 2012 vehicle stocking interest payable increased by £0.9m year on year, having a significant impact on Group profitability levels. This effect has now been addressed with pipeline inventory at more normalised levels reflecting increased vehicle sales in fleet and retail channels in the first quarter of 2012.

### Exceptional charges

Profit before tax increased by £0.2m to £5.5m (2011: £5.3m) and was positively impacted by reduced exceptional costs of £1.3m (2011: £2.8m) which were incurred in the period. These exceptional reorganisation charges related to new acquisitions and portfolio restructuring during the current year.

## Finance Director's Review (continued)

### Taxation

During the year the Group has resolved several outstanding matters with HMRC, which went back over the last four years. As a result the effective tax rate of 9.2% has benefited from the release of prior year tax provisions reducing it from the headline UK Corporation Tax rate of 26%. In future years the Board expects that the Group's effective tax rate will revert to being closer to the headline UK Corporation Tax rate.

### Cashflows

The Group continues to be cash generative with an operating cash inflow of £7.5m (2011 £12.0m) in the period. This was reduced from the prior year due to the investment in higher new and used vehicle stock levels to take advantage of the more robust consumer demand in the first quarter of 2012. The cash generation in the period resulted in the Group having a net cash position of £3.5m at 29 February 2012 (2011 £13.6m). The Group invested £11.9m in the period comprising £9.9m in new businesses and acquiring new freehold land and buildings and a further £2.0m in capital expenditure related to property refurbishments and developments to enhance retail environments and increase the productive capacity of the Group.

### Financial Position

The Group has a strong balance sheet with shareholders' funds of £100.5m (2011 £97.5m), representing net assets per share of 50.4p (2011 48.9p). Tangible net assets per share were 41.6p (2011 40.1p). The balance sheet is underpinned by a freehold and long leasehold property portfolio of £79.4m (2011 £72.8m). On 29 February 2012, £6.6m of freehold property assets previously held as assets held for resale, were reclassified in the balance sheet into Property, Plant and Equipment.

The Group finances its operations by a mixture of shareholders' equity, bank borrowings and trade credit from suppliers and manufacturer partners. The Group has in place a bank loan of £9.5m repayable on an amortising basis by October 2015, and an undrawn acquisition facility of £15m available until October 2013. Interest is payable on these facilities at LIBOR plus 2.25% and LIBOR plus 1.85% respectively. During the period, the Group comfortably complied with all of the financial covenants in respect of these borrowings, which include loan to value, net debt to EBITDA and interest and lease costs to EBITDAR.

In addition to these loan facilities, the Group has £25m of overdraft and other money market facilities. On the overdraft, interest was paid on drawn amounts at 1.5% above Base Rate, and on the money market facilities interest was paid at 1.35% above LIBOR. These facilities are available until the next review date of 30 April 2013. The Group operated with substantial cash balances for much of the year and these additional facilities are utilised to fund peak working capital requirements following plate change months. As at 29 February 2012, the Group had cash balances of £12.9m (2011 £23.4m) and as a consequence net cash of £3.5m (2011 £13.6m). The positive net cash balance at 29 February 2012 reflects the seasonal reduction in working capital, typical of the industry, which arises at the period end prior to a plate change month. Consequently, the year-end net cash balance is higher than the normalised cash balances throughout the remainder of the year by circa £10m. This cash, the Group's ongoing cash generation and the acquisition loan facility, will be used to fund the Group's on-going acquisition strategy.

## Finance Director's Review (continued)

### Pensions

The Bristol Street defined benefit pension scheme, which is accounted for on the basis of IAS 19, showed a surplus as at 29 February 2012 of £1.7m (2011: £2.3m). During the year, and in line with the funding programme agreed with the Trustees in 2010, the Group made cash contributions to the scheme of £0.4m (2011: £0.4m). This scheme is closed to future membership and accrual.

Michael Sherwin  
Finance Director



## Main Board Directors

The Board currently comprises the Directors outlined below

### **Paul Williams – Non-Executive Chairman**

Paul (65) was Chief Executive of Bristol Street Group Limited until its acquisition by Vertu Motors plc. Paul has over thirty years of motor retail experience and is well respected in the motor retail sector. This was reflected by his previous roles as Chairman of the National Franchised Dealer Association (NFDA) and the Retail Motor Industry Federation (RMIF).

### **William Teasdale – Non-Executive Director**

Bill (69) is a non-executive director of a number of private companies including British Engines Limited and Bedmax Limited. He was non-executive Director and Chairman of the Audit Committee at Reg Vardy plc between 2002 and 2006. Prior to this he was the Senior Partner at the Newcastle upon Tyne office of PricewaterhouseCoopers. Bill has substantial experience of corporate transactions and within the quoted company environment.

### **David Forbes – Non-Executive Director**

David (52) is a former Managing Director at Rothschild where he has developed his career over 22 years. Prior to that he qualified as a Chartered Accountant in 1984 and worked for a number of organisations in corporate finance roles. His areas of expertise include mergers, acquisitions, corporate strategy and corporate finance, involving both debt and equity. His other non-executive appointments include non-executive directorships at Codex Global and Renew Holdings plc and non-executive Chairmanship of MaxAim LLP.

### **Nigel Stead - Non-Executive Director**

Nigel (62) was until recently CEO of Lex Autolease, the UK's largest contract hire and leasing group. He has also been a Non-Executive Director of Motability Operations Group plc and Universal Salvage plc. Nigel is currently a Director of the British Vehicle Rental and Leasing Association and a Non-Executive Director of Prohire plc and Merrion Fleet Management Limited.

### **Robert Forrester – Chief Executive**

Robert (42) 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 is also a member of the Economic Affairs Committee of the Confederation of British Industry and on the Investment and Remuneration committees of St Hugh's College, Oxford.

### **Michael Sherwin – Finance Director**

Michael (53) has extensive retail, transactional and public market experience. From 1999 to 2008, Michael was Group Finance Director of Games Workshop Group PLC, a FTSE listed consumer goods company. Michael is a qualified Chartered Accountant having trained with Price Waterhouse, where he held positions in the UK, Paris and Sydney. He was also Non-Executive Director of Plusnet plc, an AIM listed internet business, from 2004-2007.

## Advisers

### **Nominated Adviser and Broker**

Panmure Gordon (UK) Limited  
14<sup>th</sup> Floor  
Unity Building  
20 Chapel Street  
Liverpool  
L3 9AG

### **Solicitors**

Muckle LLP  
Time Central  
32 Gallowgate  
Newcastle upon Tyne  
NE1 4BF

### **Independent Auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
101 Barbirolli Square  
Lower Mosley Street  
Manchester  
M2 3PW

### **Tax Advisers**

Deloitte LLP  
One Trinity Gardens  
Broad Chare  
Newcastle upon Tyne  
NE1 2HF

### **Registrars**

Capita IRG Plc  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### **Financial PR Advisers**

FTI consulting Group  
Holborn Gate  
26 Southampton Buildings  
London  
WC2A 1PB

### **Company Secretary and Registered Office**

Karen Anderson  
Vertu House  
Kingsway North  
Team Valley  
Gateshead  
NE11 0JH

# Corporate and Social Responsibility Report

## Introduction

Corporate and Social Responsibility ("CSR") is at the very core of our Group's culture and values and the CSR strategy falls into four main areas

- o Health and Safety
- o Environmental Management
- o Colleagues
- o Vertu in the Community

## 1 Health and Safety

The environmental impact of the main automotive retail business is comparatively low, however, our focus on responsible policies with regards to Health & Safety, Energy and the Environment is high

A consistent Group-wide approach is taken with regards to Health and Safety and Environmental matters. The Health and Safety policy laid down by the Board in 2007 provides the core framework for our standard processes. This policy is regularly reviewed and updated if required. All managers within the business receive training.

There are clear lines of responsibility which are communicated to all colleagues. The General Manager is the main responsible individual at each business for all Health and Safety matters supported by a site Health and Safety Co-ordinator. A Group Health and Safety Manager is in place and responsibilities include, monitoring compliance with Health and Safety systems, 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 Manager also reports monthly to the Board. This year the average audit performance score increased to 94% from 92%.

## 2 Environmental Management

The Group's strategy on environmental matters is to ensure legal and regulatory compliance as well as seeking to reduce costs through effective resource management.

The licences required to operate the businesses are obtained from the relevant authorities and controls are in place in relation to substances that may harm the environment including

- o Substances that may be hazardous to health are logged and recorded on sites together with written assessments of precautions necessary while in use
- o Waste from sites is disposed of by authorised carriers in accordance with the Environmental Protection Act 1990. Relevant hazardous waste producing licences are in place where required and waste transfer notes are logged
- o Water based paints are used by our bodyshops and the Group does not use paints containing isocyanates
- o Paint spray booths are examined and serviced annually with filters being replaced at the manufacturer recommended intervals
- o All redundant and end of life hardware and electrical items are disposed of in accordance with the Waste Electrical and Electronic Equipment Directive (WEEE Directive) regulations

A great deal of importance is placed on environmental matters during the due diligence process for acquisitions with external environmental consultants reviewing and assessing environmental risks. Assessments may include site and soil surveys, reviews of environmental management systems and reviews of compliance with laws and regulations. Appropriate warranties and indemnities are then sought from vendors.

# Corporate and Social Responsibility Report (continued)

## 2 Environmental Management (continued)

Vertu Motors plc is a registered participant of the Carbon Reduction Commitment (CRC) scheme operated by the Environment Agency. All data submissions and declarations are completed in accordance with the CRC Scheme rules. Vertu Motors plc is committed to energy usage reduction and actively monitors energy usage. All sites are fitted with Automatic Meter Readers (AMRs) and the Group monitors usage in half hourly segments. All General Managers receive energy management/reduction training and have access to on-going support to target usage savings. This focus has helped the Group save 10% usage per annum for the past two years. The Board continues to target additional 10% usage savings each year.

The Group seeks to establish long term partnerships with a small number of like-minded core suppliers who can provide evidence that they hold all of the relevant licences and accreditations required to operate their business. Suppliers must also be able to demonstrate their CSR policies and internal processes to support these policies.

## 3. Colleagues

The Group seeks to fulfil the career aspirations and potential of all colleagues. The Board seeks that every colleague enjoys coming to work, feels motivated 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. In order to develop a culture that is positive and contributes to the Group performance, a number of core values are used extensively in the business to signpost desired behaviours. These are set out below.

### Values

#### o **Passion**

We are proud of our Company and dedicated to its purpose. We are enthusiastic, enjoy challenges and are eager for success.

#### o **Respect**

We are friendly and courteous in all our relationships with colleagues, customers and suppliers.

#### o **Professionalism**

We are reliable and consistent and we excel in the standards and presentation of our people, products and premises.

#### o **Integrity**

We are trustworthy and honest in all that we say and do and take responsibility for our own actions.

## Corporate and Social Responsibility Report (continued)

### 3 Colleagues (continued)

#### Values (continued)

##### o Recognition

We appreciate the endeavours of our colleagues. We praise their achievements and enjoy celebrating their success.

##### o Opportunity

We have a vision of what can be achieved and provide colleagues with personal development, supportive training and exciting career progression.

##### o Commitment

We are all determined to achieve total customer satisfaction by providing a service built on trust.

#### Employment Policies

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

- o Offering equal opportunities in recruitment and promotion,
- o The continuous development of all colleagues
- o Encouraging internal promotion,
- o Using progressive, consistent and fair selection methods,
- o 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.

All appointments are made solely on the basis of 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.

Employment 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.

The Group pays attractive salaries and additional benefits to dedicated people. Every permanent colleague is offered entry into the Group's pension scheme. The Group encourages colleagues to become shareholders in the Company through participation in the Group's share schemes, including an all-colleague Share Incentive Plan.

## Corporate and Social Responsibility Report (continued)

### 3 Colleagues (continued)

#### Communication

The Group is committed to providing colleagues with information on matters of concern to them on a regular basis. Whilst individual achievement is always recognised, good teamwork is at the core of the business. At the heart of this is good communication. The Company utilises many formal and informal channels to achieve this, for example the Chief Executive produces a weekly blog, regular updates are posted onto a Group wide intranet site and printed newsletters are produced. Each General Manager undertakes a monthly Team Brief, updating colleagues in small groups on relevant issues impacting the Group and the dealership.

The Group operate several award schemes covering all colleagues. These schemes are intended to recognise and reward talented and committed individuals throughout the company. For example, the CEO Awards are announced each December whereby eight managers are recognised for their performance. The Group also launched in 2011 a Master's Club whereby 26 high performing non-management colleagues are recognised for their performance. The recipients range from sales executives, service advisors and technicians to drivers and receptionists. These awards programmes are designed to reward and reinforce behaviours underpinning both Group financial performance and other strategic objectives such as the delivery of an outstanding customer experience.

### 4 Vertu in the Community

The scope of our involvement in the community is three-fold, charity support, community sponsorship and commercial sponsorship.

#### Charity Support and Sponsorship

The Group is proud to work with a diverse range of charities, over the past three years we have raised over £100,000. This year the Group supported the following charities:

- BEN (Motor and Allied Trades Benevolent Fund)
- Children in Need
- Help for Heroes
- Juvenile Diabetes Research Foundation (JDRF)

#### Community Sponsorship

As the Group has expanded so has the scope of the Group's involvement in the community as part of our wider corporate and social responsibility strategy. The projects chosen to be supported reflect the diversity and depth within the business and the desire to be an active part of the communities the dealerships serve. Our community partnerships range from supporting brass bands, youth football teams to vocational training.

#### Commercial Sponsorship

Our commercial sponsorship ventures support projects which bring communities together. Commercial partnerships include those with Motherwell FC, St Mirren FC, Dunfermline Athletic and England Cricket.

## Directors' Report

The Directors present their annual report and the audited financial statements on the affairs of the Group and Company, for the year ended 29 February 2012

### Principal Activities

The principal activity of the Group is the provision of new and used vehicles, together with related after-sales services. The principal activity of the Company is the provision of management services to all subsidiary statutory entities.

### Business Review and Future Developments

The review of the business for the year is contained in the Chairman's Report, Chief Executive's Review and Finance Director's Review. This includes details of acquisitions and likely future developments. It remains your Board's intention to deliver shareholder value and develop the Group through strategic acquisitions supplemented by the focused organic growth of its existing businesses.

The Group has a number of Key Performance Indicators ("KPI's") by which it monitors its business. These include sales and gross margins by channel, an analysis of these KPI's is set out in the Chief Executive's Review on page 7.

### 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.

#### Economic Conditions

Profitability is influenced by the economic environment in the United Kingdom. Factors such as unemployment and consumer confidence impact on levels of discretionary spending, including vehicle purchases. In addition, fuel prices, foreign exchange, interest rate movements and changes to levels of taxation on vehicles also have a direct effect on the Group's sales. The Group closely monitors several internal and external measures and indicators and management takes action (for example, on selling prices or on costs) as appropriate.

#### Vehicle Manufacturer Dependency

Our franchised dealerships represent our Manufacturer partners, as a result the Group is dependent on these partners for a significant proportion of its profitability. Changes to the financial condition, product development, production and distribution capabilities or reputation of any of our manufacturer partners may impact results. The Group mitigates this risk by developing trading relationships with a portfolio of manufacturers thereby avoiding over-reliance on any single manufacturer and by monitoring trends in franchise performance over time.

#### Used Vehicle Prices

The value of used vehicles can decline as demand and supply of such vehicles fluctuate within the market. Declining prices reduce used vehicle margins and increase the level of vehicle write downs against the value of the Group's used vehicle inventory. The Group monitors movements in the used vehicle market on a daily basis and uses real-time inventory management and control system to react swiftly as market conditions change.

#### Reliance on Certain Key Colleagues and Management

The Group is dependent on members of its senior management team and the Group's ability to attract and retain highly skilled management and colleagues could impact on both performance and the ability to expand. The Group performs succession planning, identifying potential replacements for key roles, both from within the Group and externally. Recruitment procedures, salaries and performance related elements of colleagues' packages are kept under regular review to ensure that the Group attracts and retains highly skilled colleagues.

## Directors' Report (continued)

### Principal Risks and Uncertainties (continued)

#### Liquidity and Financing Risk

The Group finances its operations through a mixture of retained profits, bank borrowings and trade credit from both suppliers and manufacturer partners. Movements in interest rates on the Group's facilities can impact profitability. In addition a withdrawal of financing facilities or failure to renew them as they expire could lead to a reduction in the trading ability of the Group. The utilisation of working capital is closely monitored and regular cashflow forecasts are prepared and compared to the facilities available. The Group maintains relationships with several providers of finance to ensure that a comprehensive range of funding facilities is maintained.

#### Reliance on the Use of Estimates

The Group exercises judgement over certain accounting matters in respect of goodwill impairment, employee post retirement benefit obligations and taxation. A significant variance in these judgements could impact on the profitability of the Group. These judgements are kept under regular review by the Board to ensure that they remain current and appropriate.

#### Information Systems

The Group is dependent upon a number of business critical computer systems which, if interrupted for any length of time, could impact on the efficient running of the Group's business. The Group has implemented a robust business continuity planning process which ensures resilience of the conduits for data and communications in the event of business interruption. These plans are reviewed, updated and tested regularly.

#### Legislative Changes to Vehicle Distribution

Block Exemption Regulations are a complex set of rules that define how new vehicles are supplied, distributed and dealt with after they are sold within the European Union. The current regulations which were due to expire in 2010 have been extended to 2013. These regulations abolish restrictions on the number of dealers operating within a territory and allow the provision of aftersales support to be separate from the sale of new vehicles. Therefore the regulations introduce the potential for additional competition to the franchised dealer network. The Board believes that through a continuation of its focus on customer experience and a partnership approach with its manufacturer partners, the impact of these regulations will be minimal for the Group.

### Results and Dividends

The results for the year are set out in the consolidated income statement on page 36. The Group's profit on ordinary activities after taxation for the year was £5,033,000 (2011 £4,024,000).

The dividend paid in the year to 29 February 2012 was £996,000 (0.5p per share) (2011 £399,000 (0.2p per share)). A final dividend in respect of the year ended 29 February 2012 of 0.4p per share, is to be proposed at the annual general meeting on 24 July 2012. The ex dividend date will be 13 June 2012 and the associated record date 15 June 2012. These financial statements do not reflect this final dividend payable.

### Company Number

The registered number of the Company is 5984855.

### Directors and Their Interests

Brief particulars of the Directors are listed on page 13. Further details of the Board composition are contained in the Corporate Governance Report and details of Directors' service contracts are contained in the Remuneration Report. The Directors who served during the year ended 29 February 2012 and up to the date of signing the financial statements were:

P R Williams  
R T Forrester  
M Sherwin  
W M Teasdale  
D M Forbes  
N Stead (appointed 8 December 2011)

## Directors' Report (continued)

### Directors and Their Interests (continued)

The Directors retiring at the Annual General Meeting are N Stead, M Sherwin and W M Teasdale. Each retiring Director, being eligible, offers themselves for re-election.

The Directors who held office at 29 February 2012 and their connected persons had interests in the issued share capital of the Company as at 29 February 2012 as follows:

	29 February 2012	28 February 2011
	Ordinary Shares	Ordinary Shares
P R Williams	2,827,485	2,827,485
R T Forrester	6,329,357	5,862,812
M Sherwin	160,702	136,356
D M Forbes	200,000	200,000
W M Teasdale	533,850	533,850
N Stead	-	-

There were no significant contracts between the Company or any of its subsidiary undertakings and any of the Directors.

### Derivatives and Financial Instruments

The Group's treasury activities are operated within policies and procedures approved by the Board, which include defined controls on the use of financial instruments managing the Group's risk. The major financial risks faced by the Group relate to interest rates and funding. The policies agreed for managing these financial risks are summarised below.

The Group finances its operations by a mixture of shareholders' equity funds and bank borrowings and trade credit from both suppliers and manufacturer partners. To reduce the Group's exposure to movements in interest rates, the Group seeks to ensure that it has an appropriate balance between fixed and floating rate borrowings. The Group uses interest rate swaps in order to manage its exposure to interest rate risk, all such arrangements are approved by the Board in line with its treasury policies. The Group applied hedge accounting under IAS 39 'Financial Instruments' in respect of its interest rate swap arrangements.

The Group has ensured continuity of funding by entering into a five year funding agreement with Barclays Bank on 15 October 2010, comprising a £10m term loan repayable over 5 years and a £15m revolving credit facility. Short-term flexibility is achieved through the Group's overdraft and short term committed money market loan facilities. These annual facilities were renewed on 30 April 2012. At 29 February 2012 the Group held an interest rate hedge in respect of the outstanding term loan.

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. The Group has no significant direct exposure to foreign currency.

### Charitable Contributions

The Group's Corporate and Social Responsibility Report is set out on pages 15 to 18. The Group made charitable contributions totalling £32,000 (2011: £39,000), consisting of £22,000 to BEN (Motor and Allied Trades Benevolent Fund) and £10,000 to Juvenile Diabetes Research Foundation (JDRF).

### Colleagues

The policies of the Group on equal opportunities, including those of disabled colleagues and colleague involvement, are set out in the Corporate and Social Responsibility Report on pages 15 to 18.

## Directors' Report (continued)

### Payment of Creditors

The Company and the Group does not operate a defined code of practice regarding the payment of its creditors. The largest proportion of trade creditors in value terms relates to supplies provided by the vehicle manufacturers who have granted vehicle sales and aftersales franchises to the Group. Under the terms of the franchise agreements, supplies of vehicles and parts are provided on predetermined credit arrangements to the Group and the supplier effects payments by application of a direct debit on the due date. The Group agrees appropriate payment terms with other major suppliers, when agreeing the price and other terms of purchase. Trade creditors of the Company for the year ended 29 February 2012 were equivalent to 43 days (2011: 47 days) purchases.

### Independent auditors and disclosure of information to 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's auditors are unaware, and, each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group'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.

### Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the Directors are required to

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

## Directors' Report (continued)

### Statement of Directors' Responsibilities (continued)

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 also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

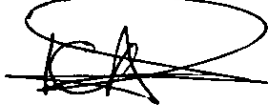
The Directors are responsible for the maintenance and integrity of the Company's website ([www.vertumotors.com](http://www.vertumotors.com)). Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in the Main Board Directors section of this Annual Report, confirms that, to the best of their knowledge:

the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and

the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

A handwritten signature in black ink, appearing to be 'KA', is written over a horizontal line. The signature is enclosed within a hand-drawn oval.

Karen Anderson  
Company Secretary  
16 May 2012

# Corporate Governance Report

## The UK Corporate Governance Code

As an AIM listed Company, Vertu Motors plc does not have to comply with the UK Corporate Governance Code (2010) (the 'Code') published by the Financial Reporting Council. However, the Board embraces the principles of good corporate governance.

The following statements describe how the relevant principles and provisions set out in the Code were applied to the Company and Group during the financial year and will continue to be relevant for the forthcoming financial year.

## Board of Directors

During the year under review, the Board was made up of six members comprising two executive Directors (R T Forrester and M Sherwin) and four non-executive Directors (P R Williams, W M Teasdale, D M Forbes and N Stead). It is the Board's intention that at least one half of the Board (excluding the Chairman) should comprise independent non-executive Directors. After carefully reviewing the guidance in the Code, the Board believes P R Williams, W M Teasdale, D M Forbes and N Stead to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. W M Teasdale is the senior independent Director.

In the Board's opinion, the range of experience of the Directors and the commitment to dividing the responsibilities for the running of the Board and the Company's business ensures an effective Board that leads and controls the Company.

A Chief Executive's Committee comprising the executive Directors and five Operational Directors meets monthly to consider the day to day commercial aspects of the business and reports to the Board.

During the financial year the Board met 10 times in person and on other occasions by telephone. The number of meetings attended by each Director was as follows:

	<b>Main Board</b>	<b>Audit Committee</b>	<b>Remuneration Committee</b>	<b>Nominations Committee</b>
<b>Number of meetings held</b>	10	2	3	1
P R Williams	10	1	3	1
R T Forrester	10	-	-	-
W M Teasdale	10	2	3	1
D M Forbes	10	1	3	1
M Sherwin	10	2	-	-
N Stead	3	-	-	-

Specific matters are reserved for the decision of the Board, as set out in a written statement adopted by the Board, including overall Group strategy, acquisition and investment policy, approval of major capital expenditure projects, consideration of significant financial matters and risk management. The Board also seeks to ensure that the necessary financial and human resources are in place for the Group to be able to meet its objectives, to review management performance and to ensure that its obligations to its shareholders are understood and met. Whilst the executive responsibility for running the Group rests with the Chief Executive (R T Forrester) and the Finance Director (M Sherwin), the non-executive Directors fulfil an essential role in ensuring that the strategies proposed by the executive Directors are fully discussed and critically examined prior to adoption. They also scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance both financial and non-financial.

## Corporate Governance Report (continued)

### Board of Directors (continued)

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. N Stead, M Sherwin and W M Teasdale are to retire and submit themselves for re-election by rotation at the 2012 Annual General Meeting. 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.

Certain of the Board's duties are delegated to committees, each of which has formal terms of reference (copies of which are available from the Company Secretary) approved by the Board. The Company Secretary acts as secretary to all Board committees and is responsible for advising the Board, through the Chairman, on all corporate governance matters.

### The Audit Committee

The Audit Committee consists of three non-executive Directors (W M Teasdale as Chairman, N Stead and D M Forbes). The Committee met twice in the last financial year with W M Teasdale present at both meetings. With the consent of the Chairman, meetings are normally attended by the executive Directors and by invitation, a representative of the Group's Independent Auditors. The Committee reviews the effectiveness of accounting and financial policies and controls (including that in relation to FSA regulation compliance) and non-audit work carried out by the Company's Independent Auditors. Time is set aside for discussions between the non-executive Directors and the Independent Auditors in private.

### Remuneration Committee

The Remuneration Committee consists of the four non-executive Directors (W M Teasdale as Chairman, P R Williams, D M Forbes and N Stead). The Committee met three times in the last financial year with W M Teasdale present at each meeting. The main duties of the Remuneration Committee are to make recommendations to the Board on the Company's framework of executive remuneration and to award appropriate remuneration packages to individual executive Directors. Part of the remuneration may be in the form of bonuses, which can be earned against certain set criteria, based principally on the reported profit on ordinary activities before taxation of the Group. It is also responsible for the granting of options, under the Vertu Motors plc Share Option Schemes, to executive Directors and senior management within the Group. No executive Director takes part in discussions regarding his own remuneration. In addition, the Committee reviews and makes recommendations in respect of the remuneration of senior management of the Group. Further details on remuneration are included in the Remuneration Report.

The Remuneration Committee considers that inclusion of fluctuating emoluments, which include performance bonuses, is an important element of the Company's employment of executive Directors and senior managers. In recognition of the large proportion of remuneration attributable to performance bonuses, the pensionable salaries for executive Directors and senior managers is fixed at 110% of basic salary. The Code (2010) recommends that, in general, bonuses should not be pensionable. However, the bonus element is regarded by the Committee as an important motivational and retention feature of emoluments.

## Corporate Governance Report (continued)

### Nominations Committee

The Nominations Committee consists of the four non-executive Directors (W M Teasdale as Chairman, P R Williams, D M Forbes and N Stead) The Committee met once in the last financial year The Committee is responsible for selecting candidates who are to be nominated to the Board for directorships whilst approval of all Board appointments will be made by the Board as a whole Succession is a matter considered by the Nominations Committee but ultimately on which the Board as a whole will decide The Committee adopts a formal, rigorous and transparent procedure for the selection and appointment of candidates as Directors This includes setting the criteria for the role and conducting a search, using recruitment consultants where appropriate, to identify appropriate candidates, who are then interviewed to assess their suitability for the role, based on merit and on objective selection criteria

### Pension Trustees

The assets of the Bristol Street Pension Scheme, established for the benefit of certain of the Group's colleagues, are held separately from those of the Group The Scheme operates through a trustee company of which W M Teasdale is a Director The management of the assets is delegated to a number of specialist independent investment houses and there is no investment of scheme assets in the shares of the Company

### Relations with Shareholders

The Company encourages two way communications with both institutional and private investors and responds quickly to all queries received orally or in writing The executive Directors attended meetings with institutional shareholders and analysts during the year at the time of the publication of the Group's interim results and subsequently following the issuance of the Preliminary Announcement

All shareholders have at least 21 clear days' notice of the Annual General Meeting at which all of the Directors are normally available for questions The Directors believe the Annual General Meeting is an important opportunity for communication with both institutional and private investors and invite questions from shareholders at the meeting In accordance with the Code 2010, details of proxy voting on resolutions are available to shareholders during and after the Annual General Meeting

### Internal Controls

The Board is responsible for establishing the Group's system of internal control, which covers all aspects of the business, and for reviewing its effectiveness

The Board adopts an ongoing process for identifying, evaluating and managing the significant risks faced by the Group This ongoing process is regularly reviewed by the Board and accords with the Turnbull guidance (2005)

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 Directors regularly review the risks to which the Group is exposed, as well as the operation and effectiveness of the system of internal controls Key features of the internal control system, which have been in place throughout the year and to the date of this report are

#### Board of Directors

The Board meets regularly and reviews and evaluates the business risks Remedial action is determined where appropriate

#### Mission Statement and Values

The Group has established a Mission Statement and Values statement that clearly sets out behaviours that are embraced by the Group and that are expected of all colleagues This has been communicated to all colleagues and is embedded in the culture of the Group

## Corporate Governance Report (continued)

### Internal Controls (continued)

#### Audit Committee

The Audit Committee meets with the executive Directors, and by invitation, the Group's Independent Auditors and Internal Auditor and satisfies itself as to the adequacy of the Group's internal control systems

#### Risk Champions

The Board has appointed Risk Champions for each of the priority risk areas. They are selected from senior management and have managerial responsibility for these risk areas. Their remit includes responsibility for understanding and managing the risk environment, establishing and driving a sound risk strategy, and reporting important changes and activities to the Board on a regular basis through personal presentation, narrative reports and key performance indicators (internal and external to the organisation)

#### Chief Executive's Committee

The Chief Executive's Committee operates within clearly defined areas. This organisational structure has been designed in order to effectively plan, execute, monitor and control the Group's objectives and to ensure that internal control becomes embedded in the operations

#### Policies and Procedures

Policies and procedures, covering control issues across all aspects of the business, are communicated to the respective managers. Adherence is monitored and reported upon on an ongoing basis

#### Financial Reporting

The Group operates a comprehensive financial control system that incorporates Divisional Finance Directors who have responsibility for financial management within specific franchises. Each Divisional Finance Director works closely with their respective Divisional Director and Divisional Aftersales Director to monitor performance at dealership and franchise levels against planned and prior year comparatives. Assets and liabilities are scrutinised at several levels on a regular basis and remedial action taken where required. In addition, the Group has an internal audit function that reports to the Audit Committee. A comprehensive annual planning process is also carried out, which determines expected levels of performance for all aspects of the business

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 Board's approach involves identification of major 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 felt necessary, specialist advice is sought from external agencies and professional advisers

The Board 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

## Corporate Governance Report (continued)

### Going concern

In determining whether the Group is a going concern, the Directors have reviewed the Group's current financial position and have prepared detailed financial projections

The projections assume that profits earned from new and used car sales will remain stable throughout 2012/13, the aftersales business will continue to show growth, UK interest rates will remain static at current rates, manufacturer partners will remain in production and supply on normal terms of trade, and there will be no further significant downturn in the global economic environment

These projections, even after allowing for headroom to accommodate a reasonable downside scenario (including weaker trading and adverse movements in interest rates), indicate that the Group would be able to manage its operations so as to comfortably remain within its current funding facilities and in compliance with its banking covenants

Accordingly, after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue as a going concern for the foreseeable future. As such, the Group continues to adopt the going concern basis in preparing the financial statements

### Independence of the Independent Auditors

Both the Audit Committee and the Independent Auditors have in place safeguards to avoid the 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 Audit Committee reviews the Auditors' performance on an ongoing basis

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

The Group's policy is to appoint PricewaterhouseCoopers LLP to undertake this work where their knowledge and experience is appropriate for the assignment. 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, remuneration advice and information technology services. The provision of other non-audit services, including taxation 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 Audit 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 Audit 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

By order of the Board



Karen Anderson  
Company Secretary  
16 May 2012

# Remuneration Report

The Board presents the Remuneration Report for the year ended 29 February 2012

## Remuneration Committee

The Remuneration Committee comprises the four non-executive Directors, P R Williams, W M Teasdale, D M Forbes and N Stead each of whom is independent from the executive management of the Company and has no personal financial interest in the matters to be decided. The Committee is chaired by W M Teasdale.

## General Remuneration Policy

The Company's policy on Directors' remuneration is designed to attract and retain the highest calibre of individuals to ensure the success of the Company relative to other businesses of similar size and complexity in the United Kingdom. The Remuneration Committee seeks to ensure that the executive Directors and senior managers are motivated to achieve the level of performance necessary to create sustained growth in shareholder value and are rewarded fairly for their contributions, whilst remaining within the range of benefits offered by similar companies. The Committee considers all elements that comprise remuneration including basic salary, performance related bonus, long term incentives, pension provision, benefits in kind and the terms of service contracts and it seeks to structure total benefits packages which align the interests of executive Directors and senior managers with those of shareholders. Directors' remuneration will be the subject of regular review in accordance with this policy.

Each executive Director's remuneration package is reviewed annually by the Remuneration Committee. The remuneration of the non-executive Directors is determined by the Board as a whole by considering comparative remuneration information.

The overall earnings, benefits and basic salary levels within the quoted motor distribution sector and within listed companies in the North East of England are reviewed in determining the executive remuneration and benefits together with consideration of the levels of remuneration of the senior managers of the Company. The Remuneration Committee seeks to align executive Directors' remuneration packages with the automotive retail sector and other comparable regional listed companies. In addition, factors specific to the Company on remuneration are considered including the emphasis placed on performance related benefits which are utilised across the industry. These reviews will be continued in subsequent financial years.

The Remuneration Committee applied the following structure for executive remuneration packages for the financial year:

### a) Basic Salary

The basic salaries in place from 1 March 2011 to 29 February 2012 for the two executive Directors were £200,000 for the Chief Executive R T Forrester and £150,000 for Finance Director M Sherwin. When assessing basic salaries for 2012/13, the Remuneration Committee have fully considered the comparative information available for the sector, including both listed and private businesses. The basic salary of R T Forrester will be £240,000 for 2012/13 and the basic salary of Michael Sherwin will be £180,000.

### b) Performance Related Bonus

The Remuneration Committee considers that performance related elements of packages should give the executive Directors the potential to receive additional annual benefits but only if the business has outperformed on key performance metrics. It is, therefore, considered that, whilst in overall value terms the non-performance related elements of the Directors' packages may be the most important, in terms of providing motivation to the executive Directors to improve shareholder value, the performance related elements are the most important. This consideration accords with the Company's general remuneration policy of rewarding performance through performance related bonuses.

## Remuneration Report (continued)

### General Remuneration Policy (continued)

#### b) Performance Related Bonus (continued)

R T Forrester and M Sherwin are eligible for performance bonuses which reward achievement of financial performance measured by objectives set by the Remuneration Committee. The maximum amount of performance bonus that could have been earned for the year to 29 February 2012 was 150% of basic salary for R T Forrester and 150% of basic salary for M Sherwin.

For the 2012/13 financial year, the maximum amount of performance bonus that can be earned is 150% of basic salary for R T Forrester and 150% of basic salary for M Sherwin. Targets for the purpose of bonus payments are based on manufacturer partner customer satisfaction measures and consensus profit forecasts by leading analysts at the commencement of the financial year adjusted for the impact of acquisitions and disposals. The consensus profit forecast (adjusted profit before taxation) as at 1 March 2012 was £7.6m and if this target together with target customer satisfaction measures is achieved the bonus earned by both R T Forrester and M Sherwin will represent 80% of basic salary (2012: 100%). In order to achieve maximum bonus, the Company will need to achieve an adjusted profit before taxation of £11.1m as compared to the consensus of £7.6m in addition to delivering outstanding customer satisfaction across the Group throughout the year.

#### c) Share Option Schemes

It is the Company's policy to allow all colleagues to participate in the success of the Group through share ownership and participation in share option schemes.

The Board has established an all colleague Vertu Motors plc Share Incentive Plan, ("SIP"). The SIP is an HM Revenue & Customs approved all employee share incentive plan under which colleagues can invest in "partnership shares" out of their gross salary (i.e. before tax and national insurance). The Board considers the SIP provides the Company with an effective means of aligning the interests of colleagues with those of the shareholders by using shares as part of the general all colleague reward strategy. The Company currently does not supplement or match the partnership shares acquired by colleagues.

In addition, the Company has sought to reward the performance of senior managers and executive Directors through the grant of Executive Share Options which have specific challenging performance criteria attached. Details of the performance criteria are set out on pages 31 to 32. In awarding share options the Remuneration Committee considers the performance of the Group and the individual colleague having taken representations from the executive Directors. R T Forrester (Chief Executive) does not hold any share options in the Company.

### Service Contracts

The Company's policy on executive Directors' service contracts (copies of which are available for inspection at the offices of Muckle LLP) is as follows:

#### a) Notice Periods

All executive Director contracts shall be rolling contracts terminable by the Company giving one year's notice or by the executive giving one year's notice.

#### b) Termination Payments

Contracts will not provide for compensation on termination which would exceed one year's basic salary excluding bonus and benefits.

#### c) Mitigation Policy

Contracts include provision for the cessation of termination payments to a Director within a defined time period of suitable alternative employment being found by that Director. This policy is in accordance with the Board's intention to minimise exposure to the Company in this area.

## Remuneration Report (continued)

### Service Contracts (continued)

#### c) Mitigation Policy (continued)

The Company's policy on non-executive Directors' terms of appointment is that non-executive Directors are appointed for up to nine years renewable on re-election by the shareholders every three years and terminable on six months' notice by either party. The policy on termination payments is that the Company does not normally make payments beyond its contractual obligations. In exceptional circumstances, an additional ex-gratia payment may be considered upon termination of appointment for executive or non-executive Directors based on factors including the Director's past contribution and the circumstances of the Director's departure providing such award is fully explained to the shareholders.

Details of the Directors' service contracts are as follows

Name	Date of Contract	Term	Notice Period
P R Williams	26 February 2007	Up to 9 years from 27 March 2007	6 months Renewed on re-election every 3 years
R T Forrester	20 December 2006	Rolling from 6 November 2006	12 months
M Sherwin	4 January 2010	Rolling from 25 February 2010	12 months
W M Teasdale	17 November 2006	Up to 9 years from 6 November 2006	6 months Renewed on re-election every 3 years
D M Forbes	10 August 2009	Up to 9 years from 11 August 2009	6 months Renewed on re-election every 3 years
N Stead	8 December 2011	Up to 9 years from 8 December 2011	6 months Renewed on re-election every 3 years

The contracts for R T Forrester and M Sherwin contain the full termination payment and mitigation provisions referred to above

#### Pensions

R T Forrester and M Sherwin are members of the Bristol Street Senior Executives Pension Plan which is a defined contribution plan. Details of contributions made in the year are set out on page 33

#### Policy on Performance Criteria

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 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 will incur an income tax liability. The Company currently do not supplement or match the partnership shares acquired by colleagues

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

Original options under this Scheme were issued prior to 28 June 2008 and may only be exercised if Adjusted Earnings per Share ("EPS") growth is greater than 15% above the increase in Retail Prices Index ("RPI") over a 3 year performance period taking a base Adjusted EPS of 2.9p per share at 31 December 2006 per the report and accounts of Bristol Street Group Limited. If Adjusted EPS growth is 15% above the increase in RPI then 30% of the options vest, with all options vesting at growth of 20% above RPI. The options vest, if the performance criteria have been met, on either 28 February 2010, for share options issued prior to 2 April 2008 or 28 February 2011, for options issued prior to 28 June 2008. Subsequent to 28 February 2011, the performance criteria which allow 44% of the options issued between 2 April 2008 and 28 June 2008 have been met

## Remuneration Report (continued)

### Policy on Performance Criteria (continued)

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

Further options were issued under this scheme on 18 May 2010. These options may only be exercised if the average share price of the Company over any continuous period of 30 days between 1 August 2012 and 31 July 2013 is above 57p then 50% of the options vest. If the share price is between 57p and 62p then a pro-rata proportion of between 50% and 100% of the options vest. At an average share price of below 57p then none of the options are exercisable.

Additional options were issued under this scheme on 28 November 2011. These options may only be exercised if the average share price of the company over any continuous period of 30 days between 1 August 2014 and 31 July 2015 is above 38p then 50% of the options vest. If the share price is between 38p and 45p then a pro-rata proportion of between 50% and 100% of the options vest. At an average share price of below 38p then none of the options are exercisable.

#### c) Parallel Options

On 20 August, 27 August and 29 October 2009 'parallel' options were granted as the performance criteria attached to existing original share options in issue meant that, while they may vest and become exercisable, they were significantly "under water" and therefore unlikely to have any value. These options run in parallel to the existing option and it is up to the individual option holder whether they exercise the existing or 'parallel' option, however, they cannot exercise both. The 'parallel' option may only be exercised if the average share price of the Company over any continuous period of 30 days between 1 August 2011 and 31 July 2012 is above 55p then 50% of the 'parallel' options vest. If the share price in this period is 60p or more then 100% of the share options vest. If the share price is between 55p and 60p then a pro-rata proportion of between 50% and 100% of the options vest. At an average share price of below 55p then none of the options are exercisable.

### Remuneration

The remuneration of the Directors who served during the period from 1 March 2011 to 29 February 2012 is as follows

	<b>Basic Salary £'000</b>	<b>Fees £'000</b>	<b>Benefits £'000</b>	<b>Performance Bonuses £'000</b>	<b>Total £'000</b>
R T Forrester	200	-	20	107	327
M Sherwin	150	-	12	81	243
D M Forbes	-	30	-	-	30
P R Williams	-	70	-	-	70
W M Teasdale	-	50	-	-	50
N Stead	-	7	-	-	7
	<b>350</b>	<b>157</b>	<b>32</b>	<b>188</b>	<b>727</b>

The remuneration of the Directors who served during the year from 1 March 2010 to 28 February 2011 is as follows

	<b>Basic Salary £'000</b>	<b>Fees £'000</b>	<b>Benefits £'000</b>	<b>Performance Bonuses £'000</b>	<b>Total £'000</b>
R T Forrester	150	-	18	188	356
M Sherwin	125	-	10	113	248
D M Forbes	-	30	-	-	30
P R Williams	-	70	-	-	70
W M Teasdale	-	50	-	-	50
	<b>275</b>	<b>150</b>	<b>28</b>	<b>301</b>	<b>754</b>

The benefits above include items such as company cars, medical and life assurance premiums

## Remuneration Report (continued)

### Directors' Pension Entitlements

The Company has paid £32,000 (2011 £25,000) in contributions to the defined contribution Bristol Street Pension Scheme during this financial year in respect of R T Forrester and £25,000 (2011 £21,000) in respect of M Sherwin

### Directors' Share Incentives

M Sherwin holds the following options over the ordinary shares of the company

	<b>Date of Grant</b>	<b>Exercise Price (Pence)</b>	<b>Exercisable from</b>	<b>Expiry date</b>	<b>Number of Share Options</b>
M Sherwin	19 May 2010	36 75p	19 May 2013	19 May 2020	600,000

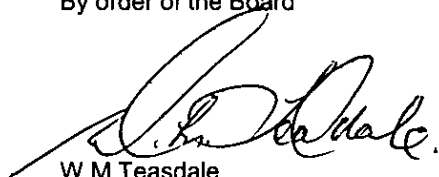
These share options were granted under the CSOP approved and unapproved share options scheme

The middle market price of the shares as at 29 February 2012 was 28 8p (28 February 2011 27 5p) and the range during the financial year was 22 0p to 35 5p (2011 25 3p to 39 0p)

### Approval by Shareholders

At the Annual General Meeting of the Company a resolution approving this report is to be proposed as an ordinary resolution

By order of the Board



W M Teasdale  
Chairman of the Remuneration Committee  
16 May 2012

## Independent Auditors' Report to the members of Vertu Motors plc

We have audited the Group financial statements of Vertu Motors plc for the year ended 29 February 2012, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### **Respective responsibilities of Directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion, the Group financial statements

give a true and fair view of the state of the Group's affairs as at 29 February 2012 and of its profit and cash flows for the year then ended,

have been properly prepared in accordance with with IFRS's as adopted by the European Union, and

have been prepared in accordance with the requirements of the Companies Act 2006

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements

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

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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

### Other matter

We have reported separately on the parent Company financial statements of Vertu Motors plc for the year ended 29 February 2012



Ian Marsden (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
16 May 2012

## Consolidated Income Statement

For the year ended 29 February 2012

	Note	2012 £'000	2011 £'000
<b>Revenue</b>			
Continuing operations		1,044,122	998,926
Acquisitions		44,140	-
		<b>1,088,262</b>	<b>998,926</b>
<b>Cost of sales</b>			
Continuing operations		(919,624)	(880,094)
Acquisitions		(39,011)	-
		<b>(958,635)</b>	<b>(880,094)</b>
<b>Gross profit</b>			
Continuing operations		124,498	118,832
Acquisitions		5,129	-
		<b>129,627</b>	<b>118,832</b>
<b>Operating expenses</b>			
Continuing operations		(115,312)	(110,090)
Acquisitions		(5,906)	-
	6	<b>(121,218)</b>	<b>(110,090)</b>
<b>Operating profit before amortisation, share based payments charge and exceptional charges</b>			
Continuing operations		9,186	8,742
Acquisitions		(777)	-
		<b>8,409</b>	<b>8,742</b>
Amortisation of intangible assets		(293)	(274)
Share based payments charge		(120)	(81)
Exceptional charges	8	(1,311)	(2,100)
		<b>6,685</b>	<b>6,287</b>
<b>Operating profit</b>			
Finance income	11	1,423	2,089
Finance costs	11	(2,567)	(2,462)
Exceptional termination of interest rate contract	8	-	(544)
Exceptional write off of loan arrangement fees	8	-	(119)
<b>Profit before tax, amortisation, share based payments charge and total exceptional charges</b>			
		7,265	8,369
Amortisation of intangible assets		(293)	(274)
Share based payments charge		(120)	(81)
Total exceptional charges	8	(1,311)	(2,763)
		<b>5,541</b>	<b>5,251</b>
<b>Profit before tax</b>			
Taxation	12	(508)	(1,227)
		<b>5,033</b>	<b>4,024</b>
<b>Profit for the year attributable to equity holders</b>			
Basic earnings per share (p)	13	2.53	2.02
Diluted earnings per share (p)	13	2.53	2.02
Adjusted earnings per share (p)	13	3.19	3.23

## Consolidated Statement of Comprehensive Income

For the year ended 29 February 2012

	Note	2012 £'000	2011 £'000
<b>Profit for the year</b>		<b>5,033</b>	<b>4,024</b>
<b>Other comprehensive (expense) / income</b>			
Actuarial (losses) gains on retirement benefit obligations	29	(1,348)	2,572
Deferred tax relating to actuarial (losses) gains on retirement benefit obligations	29	383	(693)
Cash flow hedges	31	(290)	81
Deferred tax relating to cash flow hedges	31	72	(22)
Recycling of cash flow hedge reserve to the income statement	31	-	933
Deferred tax on recycling of cash flow hedge reserve	31	-	(261)
<b>Other comprehensive (expense) / income for the year, net of tax</b>		<b>(1,183)</b>	<b>2,610</b>
<b>Total comprehensive income for the year attributable to equity holders</b>		<b>3,850</b>	<b>6,634</b>

# Consolidated Balance Sheet

As at 29 February 2012

	Note	2012 £'000	2011 £'000
<b>Non-current assets</b>			
Goodwill	15	20,620	20,509
Other intangible assets	16	987	1,060
Retirement benefit asset	29	1,690	2,295
Derivative financial instruments	26	-	81
Property, plant and equipment	18	87,374	74,063
		<u>110,671</u>	<u>98,008</u>
<b>Current assets</b>			
Inventories	20	208,436	191,656
Property assets held for sale	21	-	6,630
Trade and other receivables	22	28,248	28,828
Cash and cash equivalents	23	12,859	23,442
<b>Total current assets</b>		<u>249,543</u>	<u>250,556</u>
<b>Total assets</b>		<u>360,214</u>	<u>348,564</u>
<b>Current liabilities</b>			
Trade and other payables	24	(238,706)	(229,156)
Current tax liabilities		(3,492)	(3,937)
Borrowings	25	(2,000)	(500)
<b>Total current liabilities</b>		<u>(244,198)</u>	<u>(233,593)</u>
<b>Non-current liabilities</b>			
Borrowings	25	(7,349)	(9,303)
Derivative financial instruments	26	(209)	-
Deferred income tax liabilities	27	(3,225)	(4,016)
Provisions for other liabilities	28	(4,757)	(4,150)
		<u>(15,540)</u>	<u>(17,469)</u>
<b>Total liabilities</b>		<u>(259,738)</u>	<u>(251,062)</u>
<b>Net assets</b>		<u>100,476</u>	<u>97,502</u>
<b>Capital and reserves attributable to equity holders of the Group</b>			
Ordinary shares	30	19,928	19,928
Share premium	30	60,506	60,506
Other reserve	30	8,820	8,820
Hedging reserve	31	(159)	59
Retained earnings		11,381	8,189
<b>Shareholders' equity</b>		<u>100,476</u>	<u>97,502</u>

These financial statements have been approved for issue by the Board of Directors on 16 May 2012

  
Robert Forrester  
Chief Executive

  
Michael Sherwin  
Finance Director

## Consolidated Cash Flow Statement

For the year ended 29 February 2012

	Note	2012 £'000	2011 £'000
Operating profit		6,685	6,287
(Profit) / loss on sale of property, plant and equipment	6	(11)	171
Amortisation of other intangible assets	16	293	274
Depreciation of property, plant and equipment	18	3,860	3,389
Increase in inventories		(8,159)	(5,852)
Decrease (increase) in trade and other receivables		205	(1,479)
Impairment of assets held for sale	21	-	1,508
Increase in payables		3,902	6,028
Increase in provisions		608	1,595
Share based payments charge	30	120	81
<b>Cash generated from operations</b>		<b>7,503</b>	<b>12,002</b>
Tax received		11	311
Tax paid		(1,325)	(1,742)
Payment to terminate interest rate swap		-	(1,041)
Finance income received		61	711
Finance costs paid		(945)	(577)
<b>Net cash generated from operating activities</b>		<b>5,305</b>	<b>9,664</b>
<b>Cash flows from investing activities</b>			
Acquisition of businesses, net of cash, overdrafts and borrowings acquired	17	(5,831)	(11,977)
Acquisition of freehold land and buildings		(4,035)	(2,604)
Purchases of intangible fixed assets	16	(220)	(371)
Purchases of property, plant and equipment		(4,362)	(4,331)
Proceeds from disposal of property, plant and equipment		56	54
<b>Net cash outflow from investing activities</b>		<b>(14,392)</b>	<b>(19,229)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	32	(500)	(10,941)
Proceeds from borrowings		-	10,000
Dividends paid to Company shareholders		(996)	(399)
<b>Net cash outflow from financing activities</b>		<b>(1,496)</b>	<b>(1,340)</b>
<b>Net decrease in cash and cash equivalents</b>	32	<b>(10,583)</b>	<b>(10,905)</b>
Cash and cash equivalents at beginning of year		23,442	34,347
<b>Cash and cash equivalents at end of year</b>	23	<b>12,859</b>	<b>23,442</b>

## Consolidated Statement of Changes in Equity

For the year ended 29 February 2012

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
<b>As at 1 March 2011</b>	<b>19,928</b>	<b>60,506</b>	<b>8,820</b>	<b>59</b>	<b>8,189</b>	<b>97,502</b>
Profit for the year	-	-	-	-	5,033	5,033
Actuarial loss on retirement benefit obligations (note 29)	-	-	-	-	(1,348)	(1,348)
Tax on items taken directly to equity (note 27)	-	-	-	72	383	455
Fair value losses (note 31)	-	-	-	(290)	-	(290)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(218)</b>	<b>4,068</b>	<b>3,850</b>
Dividend paid	-	-	-	-	(996)	(996)
Share based payments charge	-	-	-	-	120	120
<b>As at 29 February 2012</b>	<b>19,928</b>	<b>60,506</b>	<b>8,820</b>	<b>(159)</b>	<b>11,381</b>	<b>100,476</b>

For the year ended 28 February 2011

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
<b>As at 1 March 2010</b>	<b>19,756</b>	<b>60,506</b>	<b>8,328</b>	<b>(672)</b>	<b>2,604</b>	<b>90,522</b>
Profit for the year	-	-	-	-	4,024	4,024
Actuarial losses on retirement benefit obligations (note 29)	-	-	-	-	2,572	2,572
Tax on items taken directly to equity (note 27)	-	-	-	(283)	(693)	(976)
Recycling of cash flow hedge reserve (note 31)	-	-	-	933	-	933
Fair value gains (note 31)	-	-	-	81	-	81
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>731</b>	<b>5,903</b>	<b>6,634</b>
Dividend paid	-	-	-	-	(399)	(399)
Share based payments charge	-	-	-	-	81	81
New ordinary shares issued	172	-	492	-	-	664
<b>As at 28 February 2011</b>	<b>19,928</b>	<b>60,506</b>	<b>8,820</b>	<b>59</b>	<b>8,189</b>	<b>97,502</b>

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

# 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 the United Kingdom. The address of the registered office is Vertu House, Kingsway North, Team Valley, Gateshead, Tyne and Wear, NE11 0JH. The registered number of the Company is 05984855.

The consolidated financial statements of Vertu Motors plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the Companies Act 2006 applicable to companies reporting under IFRS.

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

The preparation of financial statements in conformity with 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 29 February 2012

Annual improvements to IFRS's (2010) (effective 1 January 2011). This is a collection of amendments to five standards as part of the IASB's programme of annual improvements. The standards impacted are:

- IFRS 1 First Time Adoption
- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments, Disclosure
- IAS 1 Presentation of Financial Statements
- IAS 27 Separate Financial Statements

### New and amended standards and interpretations effective in the year ended 29 February 2012 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- IAS 24 (amendment) – Related Party Disclosures (accounting periods beginning on or after 1 January 2011). The revised standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and it clarifies and simplifies the definition of a related party.
- IFRIC 19 – Extinguishing financial liabilities with equity investments (accounting periods beginning on or after 1 July 2010). The interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the income statement based on the fair value of equity instruments compared to the carrying amount of the debt.

## Notes to the Consolidated Financial Statements (continued)

### 1 Accounting Policies (continued)

- IFRIC 14 (amendment) – Prepayments of a minimum funding requirement (accounting periods beginning on or after 1 January 2011) The amendment will have a limited impact as it only applies to entities that are required to make minimum funding contributions to a defined benefit pension plan It removes an unintended consequence of IFRIC 14, "IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction", relating to voluntary pension prepayments when there is a minimum funding requirement

#### **New standards, amendments and interpretations issued but not yet effective and not early adopted.**

- IFRS 9 – Financial instruments (accounting periods on or after 1 January 2015, not yet endorsed by EU)
- IFRS 13 – Fair value measurement (accounting periods on or after 1 January 2013, not yet endorsed by the EU)
- IFRS 7 (amendment) – Financial Instruments Disclosures (accounting periods on or after 1 July 2011)
- IAS 1 (amendment) – Financial statement presentation (accounting periods on or after 1 July 2012)
- IAS 19 (amendment) – Employee Benefits (accounting period on or after 1 July 2012)
- IAS 32 (amendment) – Financial instruments presentation (accounting period on or after 1 January 2014)

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Vertu Motors plc and its subsidiary undertakings Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50 per cent of the voting rights 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 income statement Following initial recognition, goodwill is measured at cost less any accumulated impairment losses For the

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting Policies (continued)

### Business combinations and goodwill (continued)

purpose of 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 income statement as incurred.

### 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, customer relationships acquired as part of a business combination, are capitalised separately from goodwill 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 of twenty 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. 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 at the following rates:

Freehold buildings	2%
Long leasehold buildings	Lease term
Short leasehold properties	Lease term (under 25 years)
Franchise standards improvements	20%
Vehicles and machinery	20%
Furniture, fittings and equipment	20% - 25%

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.

### 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 trade discounts. Net realisable value is based on estimated selling price less further costs to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

# 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 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.

### Property assets held for sale

Property assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

### Trade payables

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

### Provisions

Provisions for liabilities are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. The provisions recognised solely relate to vehicle warranty product liabilities.

### Impairment of financial and non-financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is 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 income statement.

At each reporting date, the Group assesses whether there is an indication that an 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.

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting Policies (continued)

### Impairment of financial and non-financial assets (continued)

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

Impairment losses of continuing operations are recognised in the income statement in that 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.

### 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 substantially 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

- c 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
- d 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 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.

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting Policies (continued)

### Revenue

Revenue for the sale of goods and services is measured at the fair value of consideration receivable, net of value added tax, rebates 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. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically despatched or when a service has been undertaken. Revenue also comprises commissions receivable for arranging vehicle financing and related insurance products. Commissions are based on agreed rates and income is recognised at the time of approval of the vehicle finance by the finance provider. Where the Group is acting as agent on behalf of a principal, the commission earned is also recorded at an agreed rate when the transaction has occurred.

### Pension costs

The Group operates a pension scheme, which includes both a defined contribution section and a defined benefit section (the defined benefit section was closed to new entrants and future accrual in May 2003 before ownership by Vertu Motors plc)

A defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

A defined benefit scheme is a pension scheme that is not a defined contribution scheme. 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 plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the statement of comprehensive income in the year in which they arise.

Differences between the actual and expected return on assets, changes in the retirement benefit obligation 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.

### 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 year 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 income statement, with a corresponding adjustment to equity.

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting Policies (continued)

### Share based payments (continued)

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

### 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, who is responsible for allocating resources and assessing performance of the operating segment

### Exceptional charges

The presentation of the Group's results separately identifies the effect of the impairment of non-current assets, the cost of restructuring acquired businesses and the impact of one off events as exceptional items. Results excluding impairments, restructuring costs and one off items are used by management and are presented in order to provide readers with a clear and consistent presentation of the underlying operating performance of the Group's ongoing business

### 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 income statement on a straight-line basis over the lifetime of the lease

### 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

### Derivative financial instruments

The Group uses derivative financial instruments to reduce the exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value

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 fair values of derivative financial instruments used for hedging purposes are disclosed in note 26. Movements on the hedging reserve in shareholders' equity are shown in note 31. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Any trading derivatives are classified as a current asset or liability

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting Policies (continued)

### Derivative financial instruments (continued)

#### *Cash flow hedges*

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 income statement within finance income or costs.

Amounts accumulated in equity are recycled in the 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 income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within finance income or costs.

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 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 income statement within finance income or costs.

## 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 uses derivative financial instruments to reduce exposure to interest rate movements.

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.

### **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 aims to reduce exposure to the effect of interest rate movements by hedging an appropriate amount of interest rate exposure. The impact of movements in interest rates is managed, where considered appropriate, through the use of interest rate swaps.

An interest rate swap was entered into on 29 November 2010 over an initial notional amount of £10m, which amortises in line with the repayments made on the underlying term loan, finally maturing on 15 October 2015.

The Group analyses its interest rate exposure. 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.

## Notes to the Consolidated Financial Statements (continued)

### 2 Financial risk management (continued)

#### **Market Risk – Cash Flow Interest Rate Risk (continued)**

Cash flow interest rate risk is presented by way of sensitivity analysis in accordance with IFRS 7. These show the effects of changes in market interest rates on interest income and expense.

#### **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 22.

#### **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 25 are the undrawn banking facilities that the Group has at its disposal, in order to further reduce liquidity risk.

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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	<b>Less than one year £'000</b>	<b>Between two and five years £'000</b>	<b>Total £'000</b>
Bank borrowings	2,347	8,020	10,367
Trade and other payables (excluding social security and other taxes)	235,885	-	235,885
<b>At 29 February 2012</b>	<b>238,232</b>	<b>8,020</b>	<b>246,252</b>

	<b>Less than one year £'000</b>	<b>Between two and five years £'000</b>	<b>Total £'000</b>
Bank borrowings	905	10,365	11,270
Trade and other payables (excluding social security and other taxes)	226,642	-	226,642
<b>At 28 February 2011</b>	<b>227,547</b>	<b>10,365</b>	<b>237,912</b>

## 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 no net debt or gearing at 29 February 2012 or 28 February 2011

#### *Fair value estimation*

Interest rate swap contracts have been marked to market based on valuations provided by the swap counterparty. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of long-term borrowings approximate 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

#### *Impairment of goodwill*

The Group tests annually whether goodwill has 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

#### *Income taxes*

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made

## Notes to the Consolidated Financial Statements (continued)

### 4 Critical accounting estimates and judgements (continued)

#### *Share based payments*

The share based payment expense is recognised in each year as it is incurred, based on a fair value model, and estimates of the likely future cash payments to good leavers. The key assumptions of this model are disclosed in note 30.

#### *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.

#### *Pension benefits*

The Group operates a contributory pension scheme, "Bristol Street Pension Scheme", which has three defined benefit sections (in which accrual ceased on 31 May 2003) and a defined contribution section. The obligations under this defined benefit scheme are recognised in the 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, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of the assumptions used in the year ended 29 February 2012 are provided in note 29.

### 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. There has been no change in the Group's one reportable business segment, since the Group is operated and is managed on a dealership by dealership basis. Dealerships operate a number of different business streams such as new vehicle sales, used vehicle sales and after-sales operations. Management is organised based on the dealership operations as a whole rather than the specific business streams.

Dealerships are considered to have similar economic characteristics and offer similar products and services which appeal to a similar customer base. As such, the results of each dealership have been aggregated to form one reportable business segment.

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

	2012	2012	2012	2011	2011	2011
	Revenue	Revenue	Gross Margin	Revenue	Revenue	Gross Margin
	£'m	%	%	£'m	%	%
New car retail	330.9	30	7.4	291.6	29	7.5
New fleet and commercial	270.1	25	2.3	258.9	26	2.4
Used cars	374.8	34	11.1	345.0	35	11.3
After-sales	112.5	11	41.7*	103.4	10	40.8*
	<b>1,088.3</b>	<b>100</b>	<b>11.9</b>	<b>998.9</b>	<b>100</b>	<b>11.9</b>

\*margin in after-sales expressed on internal and external turnover

## Notes to the Consolidated Financial Statements (continued)

### 6 Operating expenses

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries excluding share based payments costs (note 9)	67,180	61,934
Depreciation on property, plant and equipment (note 18)	3,860	3,389
(Profit) loss on disposal of property, plant and equipment	(11)	171
Operating lease rentals – property	5,639	4,711
Operating lease rentals – plant and equipment	160	186
Operating lease rentals – vehicles	1,747	1,737
Auditors' remuneration (note 7)	175	199
Other expenses	42,468	37,763
	<b>121,218</b>	<b>110,090</b>

### 7 Auditors' remuneration

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Fees payable to the Company's auditors' for the audit of the parent Company and consolidated financial statements	145	159
Fees payable to the Company's auditors' and its associates for other services		
- audit of Group's subsidiaries	30	30
- other services pursuant to legislation	-	10
	<b>175</b>	<b>199</b>

### 8 Exceptional charges

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Reorganisation and closure costs	1,311	592
Impairment of assets held for resale	-	1,508
	<b>1,311</b>	<b>2,100</b>
Recycling of cash flow hedge reserve	-	544
Loan arrangement fees written off	-	119
	<b>1,311</b>	<b>2,763</b>

Reorganisation and closure costs relate to new acquisitions and portfolio restructuring during the current year

In the prior year the impairment cost related to properties held for resale, and the recycling of the cashflow hedge reserve resulted from the cancellation of previous hedging arrangements

## Notes to the Consolidated Financial Statements (continued)

### 9 Employee benefit expense

	2012 £'000	2011 £'000
Wages and salaries	71,041	65,124
Social security costs	5,844	5,356
Pension costs – defined contribution plans	1,014	855
	<u>77,899</u>	<u>71,335</u>
Share based payments costs (note 30)	120	81
	<u>78,019</u>	<u>71,416</u>

Employee benefit expense included in

	2012 £'000	2011 £'000
Operating expenses	67,180	61,934
Cost of sales	10,719	9,401
Share based payment costs	120	81
	<u>78,019</u>	<u>71,416</u>

The remuneration of the Directors who served during the year from 1 March 2011 to 29 February 2012 is as follows

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	200	-	20	107	327
M Sherwin	150	-	12	81	243
D M Forbes	-	30	-	-	30
P R Williams	-	70	-	-	70
W M Teasdale	-	50	-	-	50
N Stead	-	7	-	-	7
	<u>350</u>	<u>157</u>	<u>32</u>	<u>188</u>	<u>727</u>

The remuneration of the Directors who served during the year from 1 March 2010 to 28 February 2011 is as follows

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	150	-	18	188	356
M Sherwin	125	-	10	113	248
D M Forbes	-	30	-	-	30
P R Williams	-	70	-	-	70
W M Teasdale	-	50	-	-	50
	<u>275</u>	<u>150</u>	<u>28</u>	<u>301</u>	<u>754</u>

The benefits above include items such as company cars, medical and life assurance premiums

The Company has paid £32,000 (2011 £25,000) in contributions to the defined contribution Bristol Street Pension Scheme during this financial year in respect of R T Forrester and £25,000 (2011 £21,000) in respect of M Sherwin

The Remuneration Report on pages 29 to 33 contains further details of remuneration of the Directors employed by the Company

## Notes to the Consolidated Financial Statements (continued)

### 10 Average number of people employed (including Directors)

	Number 2012	Number 2011
Sales and distribution	1,100	960
Service, parts and accident repair centres	1,130	1,075
Administration	592	554
	<u>2,822</u>	<u>2,589</u>

To demonstrate the impact of acquisitions on the above figures, the actual year-end number of people employed is as follows

	Number 2012	Number 2011
Sales and distribution	1,106	1,019
Service, parts and accident repair centres	1,147	1,092
Administration	636	577
	<u>2,889</u>	<u>2,688</u>

### 11 Finance income and costs

	2012 £'000	2011 £'000
Interest on short term bank deposits	61	82
Vehicle stocking interest	-	650
Other finance income relating to Group pension scheme (note 29)	1,362	1,357
<b>Finance income</b>	<u>1,423</u>	<u>2,089</u>
Bank loans and overdrafts	(809)	(658)
Vehicle stocking interest	(267)	-
Recycling of cash flow hedge reserve	-	(224)
Other finance costs relating to Group pension scheme (note 29)	(1,477)	(1,567)
Other finance costs	(14)	(13)
<b>Finance costs</b>	<u>(2,567)</u>	<u>(2,462)</u>

### 12. Taxation

	2012 £'000	2011 £'000
<b>Current tax</b>		
Current tax charge	1,647	1,572
Adjustment in respect of prior years	(786)	155
<b>Total current tax</b>	<u>861</u>	<u>1,727</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(305)	(221)
Adjustment in respect of prior years	182	(160)
Rate differences	(230)	(119)
<b>Total deferred tax (note 27)</b>	<u>(353)</u>	<u>(500)</u>
<b>Income tax expense</b>	<u>508</u>	<u>1,227</u>

## Notes to the Consolidated Financial Statements (continued)

### 12. Taxation (continued)

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Comprising		
Taxation – excluding exceptional charges	770	2,001
Taxation – exceptional charges	(262)	(774)
	<u>508</u>	<u>1,227</u>
<b>Factors affecting taxation expense in the year</b>		
Profit before taxation and exceptional charges	6,852	8,014
Exceptional charges	(1,311)	(2,763)
<b>Profit before taxation from continuing operations</b>	<u>5,541</u>	<u>5,251</u>
Profit before taxation multiplied by the rate of corporation tax in the UK of 26 17% (2011 28%)	1,450	1,470
Non-deductible amortisation	76	77
Non-deductible expenses	115	164
Effect on deferred tax balances due to rate change	(230)	(119)
Small companies rate	(3)	(6)
Property adjustment	(257)	(271)
Permanent benefits	(39)	(83)
Adjustments in respect of prior years	(604)	(5)
<b>Total tax expense included in the income statement</b>	<u>508</u>	<u>1,227</u>

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the Group's profits for this accounting period are taxed at an effective rate of 26 17%.

### 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.

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

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

## Notes to the Consolidated Financial Statements (continued)

### 13 Earnings per share (continued)

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Profit attributable to equity shareholders	5,033	4,024
Amortisation of intangible assets	293	274
Share based payments charge	120	81
Exceptional charges	1,311	2,763
Tax effect of adjustments	(401)	(711)
<b>Adjusted earnings attributable to equity shareholders</b>	<b>6,356</b>	<b>6,431</b>
Weighted average number of shares in issue ('000s)	199,278	198,901
Potentially dilutive shares ('000s)	14	-
<b>Diluted weighted average number of shares in issue ('000s)</b>	<b>199,292</b>	<b>198,901</b>
<b>Basic earnings per share</b>	<b>2.53p</b>	<b>2.02p</b>
<b>Diluted earnings per share</b>	<b>2.53p</b>	<b>2.02p</b>
<b>Adjusted earnings per share</b>	<b>3.19p</b>	<b>3.23p</b>
<b>Diluted adjusted earnings per share</b>	<b>3.19p</b>	<b>3.23p</b>

### 14 Dividends per share

The dividends paid in the year to 29 February 2012 were 0.5p per share in total (2011 0.2p). A final dividend in respect of the year ended 29 February 2012 of 0.4p per share, amounting to a dividend of £797,000 is to be proposed at the annual general meeting on 24 July 2012. The ex dividend date will be 13 June 2012 and the associated record date 15 June 2012. These financial statements do not reflect this final dividend payable.

### 15 Goodwill

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cost and net book value</b>		
At beginning of year	20,509	20,110
Additions (note 17)	111	399
<b>At end of year</b>	<b>20,620</b>	<b>20,509</b>

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

- Goodwill in a business combination,
- Other assets where there is any indication that the relevant asset may be impaired

In the years ended 29 February 2012 and 28 February 2011, the acquired goodwill was tested for impairment, with no goodwill impairment charge deemed necessary.

## Notes to the Consolidated Financial Statements (continued)

### 15 Goodwill (continued)

For the purposes of impairment testing of goodwill and intangible 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

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Bristol Street Group Limited	13,860	13,860
Blake Holdings Limited	1,366	1,366
Grantham Motor Company Limited	3,209	3,209
Typocar Limited	86	86
Boydslaw 103 Limited	1,452	1,452
Other acquisitions	647	536
	<b>20,620</b>	<b>20,509</b>

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

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 post-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.

Changes in gross profits and direct costs are based on past practices and expectations of future changes in the market.

An annual growth rate of 3% is assumed for the first five years, after which a growth rate of 0% is assumed to perpetuity. A risk adjusted post-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 7.3% (2011: 10%) is applied. A post-tax WACC of above 12% has to be applied before any impairment arises. A negative growth rate of greater than -6% has to be applied before any impairment arises.

### 16 Other intangible assets

<b>2012</b>	<b>Software costs</b>	<b>Customer relationships</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>			
At 1 March 2011	1,321	534	1,855
Additions	220	-	220
<b>At 29 February 2012</b>	<b>1,541</b>	<b>534</b>	<b>2,075</b>
<b>Accumulated amortisation</b>			
At 1 March 2011	690	105	795
Charge for the year	266	27	293
<b>At 29 February 2012</b>	<b>956</b>	<b>132</b>	<b>1,088</b>
<b>Net book value at 29 February 2012</b>	<b>585</b>	<b>402</b>	<b>987</b>
<b>Net book value at 28 February 2011</b>	<b>631</b>	<b>429</b>	<b>1,060</b>

## Notes to the Consolidated Financial Statements (continued)

### 16 Other intangible assets (continued)

2011	Software costs £'000	Customer relationships £'000	Total £'000
<b>Cost</b>			
At 1 March 2010	950	534	1,484
Additions	371	-	371
<b>At 28 February 2011</b>	<b>1,321</b>	<b>534</b>	<b>1,855</b>
<b>Accumulated amortisation</b>			
At 1 March 2010	443	78	521
Charge for the year	247	27	274
<b>At 28 February 2011</b>	<b>690</b>	<b>105</b>	<b>795</b>
<b>Net book value at 28 February 2011</b>	<b>631</b>	<b>429</b>	<b>1,060</b>
<b>Net book value at 28 February 2010</b>	<b>507</b>	<b>456</b>	<b>963</b>

### 17 Business combinations

#### a) Acquisition of Widnes Car Centre (1994) Limited

On 31 August 2011 the Group acquired 100% of the share capital of Widnes Car Centre (1994) Limited, which operated a Nissan dealership in Widnes and a wheelchair accessible vehicle conversion business based in Batley, West Yorkshire

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

	<b>Fair Value £'000</b>
Property, plant and equipment	1,878
Inventories	1,561
Trade and other receivables	672
Cash and cash equivalents	265
Trade and other payables	(1,371)
	<b>3,005</b>
Goodwill	-
<b>Consideration – satisfied by cash</b>	<b>3,005</b>

Acquisition related costs (included in the consolidated income statement for the year ended 29 February 2012) totalled £106,000

If the acquisition of Widnes Car Centre (1994) Limited had occurred on 1 March 2011, Group revenues for the year would have been £16,544,000 higher and Group profit attributable to equity holders would have been £185,000 lower

#### b) Other acquisitions

On 18 April 2011 the Group acquired a SEAT dealership in Barnsley through the purchase of trade and certain assets from Wheatside (Motors) Limited. Consideration was satisfied in cash

On 1 June 2011 the Group acquired a Mazda dealership in Bristol, through the purchase of the trade and certain assets of the business from Williams Automobiles Limited. Consideration was paid in cash

On 1 December 2011 the Group acquired the entire issued share capital of Compare Click Call Limited a web business marketing contract hire and personal contract hire. Consideration for the shares was paid in cash. If the acquisition of Compare Click Call Limited had occurred on 1 March 2011, Group revenues would have been £132,000 higher and Group profit attributable to equity holders would have been £8,000 lower

## Notes to the Consolidated Financial Statements (continued)

### 17. Business combinations (continued)

#### b) Other acquisitions (continued)

On 9 January 2012 the Group acquired a Vauxhall dealership in Northampton through the purchase of trade and certain assets from W Grose Limited. Consideration of the acquisition was satisfied by cash.

Details of the consolidated net assets acquired for these acquisitions at fair value and goodwill arising was paid as follows:

	Fair Value £'000
Property, plant and equipment	764
Inventories	2,447
Trade and other receivables	41
Trade and other payables	(272)
<b>Net assets acquired</b>	<b>2,980</b>
Goodwill	111
<b>Consideration – satisfied in cash</b>	<b>3,091</b>

Acquisition related costs (included in the consolidated income statement for the year ended 29 February 2012) totalled £205,000 in respect of these acquisitions.

The goodwill arising is attributable to the workforce of the acquired businesses.

#### Summary of acquisitions' cash consideration

	Cash Consideration £'000	Cash Acquired £'000	Total £'000
Widnes Car Centre (1994) Limited	3,005	(265)	2,740
Other acquisitions	3,091	-	3,091
	<b>6,096</b>	<b>(265)</b>	<b>5,831</b>

## Notes to the Consolidated Financial Statements (continued)

### 18 Property, plant and equipment

2012	Freehold and Long leasehold land and buildings* £'000	Short Leasehold land and buildings* £'000	Vehicles and Machinery £'000	Furniture, fittings and equipment £'000	Total £'000
<b>Cost</b>					
At 1 March 2011	70,000	3,563	3,026	3,463	80,052
Acquisitions**	6,431	-	182	64	6,677
Additions	1,765	186	744	1,215	3,910
Disposals	(182)	(42)	(477)	(593)	(1,294)
Reclassifications	6,630	(12)	-	12	6,630
<b>At 29 February 2012</b>	<b>84,644</b>	<b>3,695</b>	<b>3,475</b>	<b>4,161</b>	<b>95,975</b>
<b>Accumulated depreciation</b>					
At 1 March 2011	3,839	472	768	910	5,989
Depreciation charge	1,542	296	937	1,085	3,860
Disposals	(182)	(42)	(440)	(584)	(1,248)
<b>At 29 February 2012</b>	<b>5,199</b>	<b>726</b>	<b>1,265</b>	<b>1,411</b>	<b>8,601</b>
<b>Net Book Value</b>					
<b>At 29 February 2012</b>	<b>79,445</b>	<b>2,969</b>	<b>2,210</b>	<b>2,750</b>	<b>87,374</b>
<b>At 28 February 2011</b>	<b>66,161</b>	<b>3,091</b>	<b>2,258</b>	<b>2,553</b>	<b>74,063</b>

\* Includes leasehold improvements

\*\* Acquisitions include those business combinations included in note 17 together with the purchase of freehold property to expand the capacity of the Group

During the year, freehold property with a recoverable value of £6,630,000 was transferred from assets held for resale

Depreciation expense of £3,860,000 has been charged in operating expenses (note 6)

In addition to the security provided for the Group's bank borrowings, specific charges over freehold land and buildings amounting to £10,900,000 (2011 £10,900,000) have been granted to manufacturer partners as security against consignment stocking lines

## Notes to the Consolidated Financial Statements (continued)

### 18 Property, plant and equipment (continued)

2011	Freehold and Long leasehold land and buildings* £'000	Short Leasehold land and buildings* £'000	Vehicles and Machinery £'000	Furniture, fittings and equipment £'000	Total £'000
<b>Cost</b>					
At 1 March 2010	63,848	1,901	2,583	2,613	70,945
Acquisitions	8,039	815	364	239	9,457
Additions	1,685	847	741	1,171	4,444
Disposals	(268)	-	(636)	(568)	(1,472)
Reclassifications	(3,304)	-	(26)	8	(3,322)
<b>At 28 February 2011</b>	<b>70,000</b>	<b>3,563</b>	<b>3,026</b>	<b>3,463</b>	<b>80,052</b>
<b>Accumulated depreciation</b>					
At 1 March 2010	2,511	301	539	565	3,916
Depreciation charge	1,484	171	843	891	3,389
Disposals	(90)	-	(604)	(553)	(1,247)
Reclassifications	(66)	-	(10)	7	(69)
<b>At 28 February 2011</b>	<b>3,839</b>	<b>472</b>	<b>768</b>	<b>910</b>	<b>5,989</b>
<b>Net Book Value</b>					
<b>At 28 February 2011</b>	<b>66,161</b>	<b>3,091</b>	<b>2,258</b>	<b>2,553</b>	<b>74,063</b>
<b>At 28 February 2010</b>	<b>61,337</b>	<b>1,600</b>	<b>2,044</b>	<b>2,048</b>	<b>67,029</b>

\* Includes leasehold improvements

## Notes to the Consolidated Financial Statements (continued)

### 19. Subsidiary undertakings

Significant subsidiary undertakings (ordinary shares 100% owned and incorporated within the United Kingdom), as at 29 February 2012 and 28 February 2011 were

<b>Company</b>	<b>Principal activity</b>
Vertu Motors (Finance) Limited	Finance company
Boydslaw 103 Limited	Holding company
Vertu Motors (Durham) Limited (previously Patrick (Holdings) Limited)	Holding company
Bristol Street Fifth Investments Limited	Holding company (dormant subsidiaries)
Blake Holdings Limited	Holding company (dormant subsidiaries)
Bristol Street Group Limited	Motor retailer
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 (Pity Me) Limited (previously Patrick (Durham) Limited))	Motor retailer
BSH Pension Trustee Limited	Pension scheme trustee
Vertu Motors (Property) Limited	Property company
Bristol Street Commercial (Italia) Limited	Commercial vehicle retailer
Vertu Fleet Limited	Dormant company
Vertu Motors Third Limited	Dormant company
Vertu Motors (Retail) Limited	Dormant company
Bristol Street Fleet Services Limited	Dormant company
Vertu Motors (AMC) Limited	Dormant company
Vertu Motors (Chingford) Limited (previously Vertu Motors (France) Limited)	Dormant company
Motor Nation Car Hypermarkets Limited	Dormant company
Bristol Street Limited	Dormant company
Bristol Street (No 1) Limited	Dormant company
Bristol Street (No 2) Limited	Dormant company
National Allparts Limited	Dormant company
Tyne Tees Finance Limited	Dormant company
Merfield Properties Limited	Dormant company
Peter Blake Limited	Dormant company
Peter Blake (Chatsworth) Limited	Dormant company
Peter Blake (Clumber) Limited	Dormant company
Dunfermline Autocentre Limited	Dormant company
Typocar Limited	Dormant company

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), were acquired in the year ended 29 February 2012

<b>Company</b>	<b>Principal activity</b>
Widnes Car Centre (1994) Limited	Holding company
Widnes Car Centre Limited	Motor retailer*
KC Mobility Solutions Limited	Wheelchair accessible vehicle converter*
Compare Click Call Limited	Vehicle price comparison website*

\* On 29 February 2012 the trade and assets of these subsidiaries were transferred to other wholly owned subsidiaries of the Group. These subsidiaries will be Dormant companies from 1 March 2012

## Notes to the Consolidated Financial Statements (continued)

### 20 Inventories

	2012 £'000	2011 £'000
New vehicles	158,571	149,061
Used, demonstrator and courtesy vehicles	38,606	34,683
Parts and sundry stocks	11,259	7,912
	<b>208,436</b>	<b>191,656</b>

The cost of inventories recognised as expense and included within 'cost of sales' amounted to £987,728,000 (2011 £828,000,000)

Motor vehicles include new vehicles invoiced not yet paid and held by manufacturers to the order of the Group of £139,181,000 (2011 £137,002,000) A corresponding liability is held within trade payables

### 21 Property assets held for sale

	2012 £'000	2011 £'000
At beginning of year	6,630	4,900
Transfers in from freehold property	-	3,238
Transfers to freehold property	(6,630)	-
Impairment of property assets held for resale	-	(1,508)
<b>At end of year</b>	<b>-</b>	<b>6,630</b>

During the year ended 29 February 2012, property assets held for resale were transferred to fixed assets at their estimated realisable value of £6,630,000

### 22 Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	17,905	18,115
Less provision for impairment of trade receivables	(473)	(469)
<b>Trade receivables (net)</b>	<b>17,432</b>	<b>17,646</b>
Other receivables	6,674	6,828
Prepayments and accrued income	4,142	4,354
	<b>28,248</b>	<b>28,828</b>

As at 29 February 2012, trade receivables of £698,000 (2011 £497,000) were past due but not impaired The ageing of these receivables are all within 3 months overdue

As at 29 February 2012, trade receivables of £473,000 (2011 £469,000) were impaired and provided for

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

	2012 £'000	2011 £'000
At beginning of year	469	337
Charge for receivables impairment	532	451
Receivables written off during the year as uncollectible	(152)	(81)
Unused amounts reversed	(376)	(238)
<b>At end of year</b>	<b>473</b>	<b>469</b>

## Notes to the Consolidated Financial Statements (continued)

### 22 Trade and other receivables (continued)

The creation and release of provision for impaired receivables have been included in 'other expenses' within 'operating expenses' in the income statement (note 6). Amounts charged to the 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.

### 23 Cash and cash equivalents

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Cash in bank and in hand	12,859	23,442

### 24 Trade and other payables

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current</b>		
Trade payables	210,905	199,481
Social security and other taxes	2,821	2,514
Accruals and deferred income	12,980	13,161
Other payables	12,000	14,000
	<b>238,706</b>	<b>229,156</b>

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, are designated as financial liabilities carried at amortised cost. Their fair value is deemed to be equal to their carrying value.

## Notes to the Consolidated Financial Statements (continued)

### 25 Borrowings

	2012 £'000	2011 £'000
<b>Current</b>		
Bank borrowings	2,000	500
<b>Non-current</b>		
Bank borrowings	7,349	9,303
	<b>9,349</b>	<b>9,803</b>

Borrowings are repayable as follows

	2012 £'000	2011 £'000
6 months or less	1,000	-
6-12 months	1,000	500
1-5 years	7,349	9,303
	<b>9,349</b>	<b>9,803</b>

#### a) Bank borrowings

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

During the year ended 29 February 2012, loans were subject to an interest rate of 2.25% above LIBOR. A rate of 1.50% above base rate has been applied in relation to overdrafts and a rate of 1.35% above LIBOR has been applied on the Group's Committed Money Market Loan ("CMML") facility. These rates have been retained on renewal of these facilities on 30 April 2012. The bank borrowings are secured on the assets of the Company and the Group.

The Group has the following undrawn borrowing and overdraft facilities

	2012 £'000	2011 £'000
Floating rate		
- Overdraft (uncommitted) expiring in one year	5,000	5,000
- CMML (committed) facility expiring in one year	20,000	20,000
- Loan facility expiring in greater than one year	15,000	15,000
	<b>40,000</b>	<b>40,000</b>

#### b) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £12,859,000 (2011: £23,442,000). The cash deposits comprise deposits placed on money market at call, seven day and cash deposited with counterparty banks at commercially negotiated interest rates.

Trade and other receivables and cash and cash equivalents are designated as loans and receivables, carried at amortised cost. Their fair value is deemed to be equal to their carrying value.

## Notes to the Consolidated Financial Statements (continued)

### 26 Derivative financial instruments

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

	<b>2012</b>	<b>2011</b>
	<b>Non-current</b>	<b>Non-current</b>
	<b>Liabilities</b>	<b>Assets</b>
	<b>£'000</b>	<b>£'000</b>
Interest rate swaps – cash flow hedges	209	81

The notional principle amounts of the outstanding interest rate swap contracts at 29 February 2012 were £9,500,000 (2011 £10,000,000). This interest rate swap amortises as repayments are made of the underlying term loan, finally maturing on 15 October 2015.

The movement on the hedging reserve within shareholders' equity is shown within note 31.

In accordance IFRS 7 "Financial Instruments Disclosure", fair values are defined as follows:

- Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of the interest rate swaps have been determined using a level 3 valuation technique with non-observable inputs obtained from the counterparty (2011 level 3).

### 27 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:

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
Deferred tax asset to be recovered after more than 12 months	(574)	(254)
Deferred tax liabilities to be recovered after more than 12 months	3,799	4,270
<b>Deferred tax liabilities (net)</b>	<b>3,225</b>	<b>4,016</b>

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

<b>2012</b>	<b>Deferred tax liabilities</b>	<b>Deferred tax assets</b>	<b>Net</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 March 2011	4,270	(254)	4,016
Acquired in the year	17	-	17
Credited to income statement (note 12)	(105)	(248)	(353)
Credited directly to equity	(383)	(72)	(455)
<b>At 29 February 2012</b>	<b>3,799</b>	<b>(574)</b>	<b>3,225</b>

## Notes to the Consolidated Financial Statements (continued)

### 27. Deferred income tax liabilities (continued)

2011	Deferred tax liabilities £'000	Deferred tax assets £'000	Net £'000
At 1 March 2010	4,555	(1,014)	3,541
Acquired in the year	-	(1)	(1)
(Credited) charged to income statement (note 12)	(1,261)	761	(500)
Charged directly to equity	976	-	976
<b>At 28 February 2011</b>	<b>4,270</b>	<b>(254)</b>	<b>4,016</b>

2012	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Tax losses £'000	Total £'000
At 1 March 2011	3,360	(33)	616	75	(2)	4,016
(Credited) charged to income statement	(314)	(32)	190	(199)	2	(353)
Acquired in the year	17	-	-	-	-	17
Credited directly to equity	-	-	(383)	(72)	-	(455)
<b>At 29 February 2012</b>	<b>3,063</b>	<b>(65)</b>	<b>423</b>	<b>(196)</b>	<b>-</b>	<b>3,225</b>

2011	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Tax losses £'000	Total £'000
At 1 March 2010	4,411	(33)	(138)	(699)	-	3,541
(Credited) charged to income statement	(1,050)	-	61	491	(2)	(500)
Acquired in the year	(1)	-	-	-	-	(1)
Charged directly to equity	-	-	693	283	-	976
<b>At 28 February 2011</b>	<b>3,360</b>	<b>(33)</b>	<b>616</b>	<b>75</b>	<b>(2)</b>	<b>4,016</b>

The Finance Act 2011, which was substantively enacted in July 2011, included provisions to reduce the rate of corporation tax to 26% with effect from 1 April 2011, and 25% with effect from 1 April 2012. Accordingly, deferred tax balances have been revalued at the lower rate of 25% in these accounts.

The Government announced in the 2012 Budget a further reduction in the rate of corporation tax to 24% with effect from 1 April 2012, which was substantively enacted on 26 March 2012, and by a further 1% each year to 22% by 1 April 2014. As these rate changes were announced after the company's year end of 29 February 2012, the impact of these changes is not reflected in the tax provisions reported in these accounts. If the deferred tax liability was all to reverse after 1 April 2014, the effect of the future rate changes from 25% to 22% would be to reduce the net deferred tax liability by £387,000 to £2,838,000.

## Notes to the Consolidated Financial Statements (continued)

### 28. Provisions for other liabilities

	<b>2012</b>	<b>2011</b>
	<b>£'000</b>	<b>£'000</b>
At beginning of year	4,150	2,554
Charged to the income statement (additional provisions)	4,594	3,172
Credited to the income statement (unused amounts reversed)	(458)	(242)
Utilised during year	(3,529)	(1,334)
<b>At end of year</b>	<b>4,757</b>	<b>4,150</b>

The provision above relates to used car warranty products sold by the Group. This provision relates to income received in advance, on products sold and likely to be utilised as future repair costs. It is expected that this expenditure will be incurred within three years of the balance sheet date.

### 29 Retirement benefit obligations

The Group operates a contributory pension scheme, "Bristol Street Pension Scheme", which has three defined benefit sections (in which accrual ceased on 31 May 2003) and a defined contribution section. The assets of the scheme are held separately from those of the Group, being held in separate funds by the Trustees of the Bristol Street Pension Scheme.

Regular employer contributions to the defined benefit section of the scheme (including contributions paid in respect of scheme expenses) for the year commencing 1 March 2012 are estimated to be £380,000.

The Group has applied IAS 19 to this 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.

The last actuarial valuation upon which the IAS 19 figures and disclosures have been based was at 5 April 2009. The present values of the defined benefit obligation and any past service costs were measured using the projected unit credit method.

The fair value of the assets of the scheme and the expected rates of return on each class of asset are:

	<b>Expected rate of return 29 February 2012 %</b>	<b>Market Value 29 February 2012 £'000</b>	<b>Expected rate of return 28 February 2011 %</b>	<b>Market Value 28 February 2011 £'000</b>
Equities	7.1	11,263	7.7	12,670
Bonds	3.5	19,231	4.5	16,073
Other	4.5	1,212	1.6	278
	<b>4.8</b>	<b>31,706</b>	<b>5.9</b>	<b>29,021</b>

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out above. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme at 29 February 2012.

## Notes to the Consolidated Financial Statements (continued)

### 29. Retirement benefit obligations (continued)

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

	2012 £'000	2011 £'000
Fair value of scheme assets	31,706	29,021
Present value of funded obligations	(30,016)	(26,726)
<b>Asset on the balance sheet</b>	<b>1,690</b>	<b>2,295</b>

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

	2012 £'000	2011 £'000
Opening fair value of scheme assets	29,021	27,096
Expected return on scheme assets	1,362	1,357
Actuarial gains	1,489	1,319
Employer contributions	858	428
Benefits paid	(1,024)	(1,179)
<b>As at end of year</b>	<b>31,706</b>	<b>29,021</b>

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

	2012 £'000	2011 £'000
Opening fair value of scheme liabilities	26,726	27,591
Interest cost	1,477	1,567
Actuarial losses (gains)	2,837	(1,253)
Benefits paid	(1,024)	(1,179)
<b>Closing fair value of scheme liabilities</b>	<b>30,016</b>	<b>26,726</b>

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

	2012 £'000	2011 £'000
Interest cost (note 11)	1,477	1,567
Expected return on scheme assets (note 11)	(1,362)	(1,357)
<b>Total, included in finance costs</b>	<b>115</b>	<b>210</b>

The actual returns on scheme assets in the year are as follows

	2012 £'000	2011 £'000
Expected return on scheme assets	1,362	1,357
Actuarial gains	1,489	1,319
	<b>2,851</b>	<b>2,676</b>

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

	2012	2011
Discount rate for scheme liabilities	4.7%	5.7%
Limited Price Indexation ("LPI") pension increases	3.0%	3.3%
Inflation rate	2.0%	2.5%

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

## Notes to the Consolidated Financial Statements (continued)

### 29 Retirement benefit obligations (continued)

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

	2012	2011
Male	22	23
Female	24	25

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

	2012	2011
Male	24	25
Female	26	27

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

	2012 £'000	2011 £'000
Actuarial (losses) gains	(1,348)	2,572
Related deferred tax asset (liability) (note 27)	383	(693)
<b>Total, included within retained earnings</b>	<b>(965)</b>	<b>1,879</b>
<b>Cumulative actuarial losses</b>	<b>(1,868)</b>	<b>(520)</b>

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Defined benefit obligation	(30,016)	(26,726)	(27,591)	(21,053)	(25,520)
Scheme assets	31,706	29,021	27,096	21,183	28,637
<b>Surplus/(deficit)</b>	<b>1,690</b>	<b>2,295</b>	<b>(495)</b>	<b>130</b>	<b>3,117</b>
Experience adjustments on liabilities	-	-	63	(318)	(155)
Experience adjustments on assets	1,489	1,319	4,254	(6,426)	(667)

## Notes to the Consolidated Financial Statements (continued)

### 30 Ordinary shares, share premium and other reserves

2012	Ordinary shares of 10p each Number of Shares ('000)	Ordinary shares £'000	Share premium £'000	Other reserve £'000	Total £'000
At 1 March 2011 and 29 February 2012	199,278	19,928	60,506	8,820	89,254
2011	Ordinary shares of 10p each Number of Shares ('000)	Ordinary shares £'000	Share premium £'000	Other reserve £'000	Total £'000
At 1 March 2010	197,557	19,756	60,506	8,328	88,590
Shares issued during the year	1,721	172	-	492	664
At 28 February 2011	199,278	19,928	60,506	8,820	89,254

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

#### *Share Option Schemes*

Under the Group's equity-settled share option schemes, share options are granted to certain executive Directors and to selected employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. 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 in the Remuneration Report on pages 29 to 33. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

As disclosed in the Consolidated Income Statement on page 36 a share based payments charge of £120,000 (2011: £81,000) has been recognised during the year, in relation to the schemes as described within the Remuneration Report on pages 29 to 33.

## Notes to the Consolidated Financial Statements (continued)

### 30 Ordinary shares, share premium and other reserve (continued)

#### Share Option Schemes (continued)

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

Award Date	Granted / Outstanding at 29 February 2012 No of shares	Granted / Outstanding at 28 February 2011 No of shares	Exercise Price p	Date from which exercisable	Expiry Date
4 May 2007*	111,111	203,704	81p	4 May 2010	4 May 2017
13 Jun 2007*	270,096	270,096	77.75p	13 Jun 2010	13 Jun 2017
1 Aug 2007*	591,549	648,592	71p	1 Aug 2010	1 Aug 2017
28 Aug 2007*	169,231	169,231	65p	28 Aug 2010	28 Aug 2017
7 Sep 2007*	181,818	181,818	66p	7 Sep 2010	7 Sep 2017
4 Jan 2008*	190,000	190,000	40p	4 Jan 2011	4 Jan 2018
26 Feb 2008*	10,000	10,000	43p	26 Feb 2011	26 Feb 2018
1 Apr 2008*	58,000	183,000	40p	1 Apr 2011	1 Apr 2018
21 May 2008*	167,200	410,000	44p	21 May 2011	21 May 2018
27 Jun 2008*	8,800	20,000	38.3p	27 Jun 2011	27 Jun 2018
20 Aug 2009	5,440,000	5,870,000	40p	20 Aug 2012	20 Aug 2019
27 Aug 2009	600,000	600,000	41p	27 Aug 2012	27 Aug 2019
29 Oct 2009	120,000	120,000	42p	29 Oct 2012	29 Oct 2019
18 May 2010	1,300,000	1,420,000	36.75p	19 May 2013	19 May 2020
28 Nov 2011	1,550,000	-	26.0p	1 Aug 2015	28 Nov 2021
	<b>10,767,805</b>	<b>10,296,441</b>			

#### \*Vested

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

	2012 No of share options	2011 No of share options
At beginning of year	10,296,441	10,765,978
Granted	1,570,000	1,420,000
Lapsed	(240,800)	(1,063,903)
Forfeited	(857,836)	(825,634)
<b>At end of year</b>	<b>10,767,805</b>	<b>10,296,441</b>

As at 28 February 2009, the entire reserve balance was credited through the consolidated income statement and debited through retained earnings, on the basis that the Directors believed that these options would never vest due to the performance criteria set. On 20 and 27 August 2009, the Group issued 4,980,000 parallel share options to the same employees. One of the criteria of these share options is that only either the existing options or the parallel options are able to be exercised. Therefore, the options listed in the reconciliation above contain options that cannot ever be exercised.

All options were granted at nil consideration. The middle market price of the shares as at 29 February 2012 was 28.8p (2011 27.5p) and the range during the financial year was 22.0p to 35.5p (2011 25.3p to 39.0p).

The weighted average share price during the year was 28.4p (2011 31p).

## Notes to the Consolidated Financial Statements (continued)

### 30 Ordinary shares, share premium and other reserve (continued)

#### Share Option Schemes (continued)

The weighted average fair value of options granted during the year, determined using the Black-Scholes model was 5p (2011 4p) per option

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

Vesting period	3 years
Expected volatility	20%
Option life	7 years
Expected life	5 years
Annual risk-free interest rate	3%
Dividend yield	2%

The volatility measured at the standard deviation of continuously compounded share returns 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.

### 31 Hedging reserve

The hedging reserve comprises cashflow hedges in relation to interest rate swap derivatives. The movements on the hedging reserve are as follows:

	2012 £'000	2011 £'000
At beginning of year	59	(672)
Fair value (losses) gains on derivative financial instruments during the year	(290)	81
Deferred taxation on fair value (losses) gains during year	72	(22)
Recycling of cash flow hedge reserve through the income statement	-	933
Deferred tax on recycling of cash flow hedge reserve	-	(261)
<b>At end of year</b>	<b>(159)</b>	<b>59</b>

### 32 Reconciliation of net cash flow to movement in net cash

	2012 £'000	2011 £'000
Net decrease in cash and cash equivalents	(10,583)	(10,905)
Cash inflow from increase in borrowings	-	(10,000)
Cash outflow from repayment of borrowings	500	10,941
<b>Cash movement in net cash</b>	<b>(10,083)</b>	<b>(9,964)</b>
Capitalisation of loan arrangement fees	76	277
Loan arrangement fees written off	-	(119)
Amortisation of loan arrangement fee	(122)	(79)
<b>Non-cash movement in net cash</b>	<b>(46)</b>	<b>79</b>
<b>Movement in net cash</b>	<b>(10,129)</b>	<b>(9,885)</b>
<b>Opening net cash</b>	<b>13,639</b>	<b>23,524</b>
<b>Closing net cash</b>	<b>3,510</b>	<b>13,639</b>

## Notes to the Consolidated Financial Statements (continued)

### 33 Contingencies

#### *Contingent assets*

Additional amounts may be receivable from HM Revenue & Customs, "HMRC", in respect of overpayments in Value Added Tax in previous years. These will not be recognised until they have been agreed.

### 34 Commitments

#### a) Capital Commitments

Capital commitments in respect of property, plant, and equipment amounting to £786,000 were outstanding as at 29 February 2012 (2011 £1,716,000)

#### b) Operating Lease Commitments

The Group leases various motor dealerships and other premises under non-cancellable operating lease agreements. The lease terms are between 2 and 25 years. The Group also leases various plant and equipment under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012		2011	
	Property £'000	Vehicles, plant and Equipment £'000	Property £'000	Vehicles, plant and Equipment £'000
Commitments under non-cancellable operating leases payable				
No later than 1 year	5,477	1,670	5,331	1,211
Later than 1 year and no later than 5 years	20,313	622	18,830	362
Later than 5 years	45,933	-	43,921	-
	<b>71,723</b>	<b>2,292</b>	<b>68,082</b>	<b>1,573</b>

### 35 Related party transactions

Key management personnel are defined as the Directors of the Group. The remuneration of the Directors who served during the year ended 29 February 2012 is set out in note 9.

Vertu Motors plc is a member of Trusted Dealers Limited, a company limited by guarantee, which was set up to operate a used car sales website. The company was set up as a consortium by a significant number of the UK's leading automotive retailers. R Forrester is also an unpaid non-executive director of Trusted Dealers Limited. As a member, Vertu Motors plc may receive an enhanced entitlement to share in rebates (based on advertising with the site and determined annually by the board of Trusted Dealers Limited), but has no right to receive dividends or other shares of profit. There are currently 27 other members.

Nigel Stead, a Director of the company also sits on the Board of Prohire plc. The Group sells vehicles and provides aftersales services to Prohire plc on normal commercial terms. In the period from 8 December 2011, being the date of Nigel's appointment to the Board of the Company, and 29 February 2012, sales of vehicles to Prohire plc totalled £959,000. The value of aftersales services invoiced in the same period was £10,000. At 29 February 2012 Prohire plc owed the Group £6,500 in respect of these supplies.

# Independent Auditors' Report to the members of Vertu Motors plc

We have audited the parent company financial statements of Vertu Motors plc for the year ended 29 February 2012 which comprise the Company Balance Sheet. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

## **Respective responsibilities of Directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion**

In our opinion, the parent company financial statements

- give a true and fair view of the state of the Company's affairs as at 29 February 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the parent Company financial statements are prepared is consistent with the parent Company financial statements.

## **Matters on which we are required to report by exception**

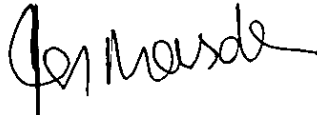
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

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

### Other matter

We have reported separately on the Group financial statements of Vertu Motors plc for the year ended 29 February 2012



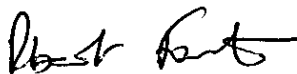
Ian Marsden (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Manchester  
16 May 2012

# Company Balance Sheet

As at 29 February 2012

	Note	2012 £'000	2011 £'000
<b>Fixed assets</b>			
Tangible assets	2	1,517	1,304
Investments	3	54,268	53,684
		<b>55,785</b>	<b>54,988</b>
<b>Current assets</b>			
Debtors	4	53,540	31,096
Cash at bank and in hand		24,033	44,449
<b>Total current assets</b>		<b>77,573</b>	<b>75,545</b>
<b>Creditors' amounts falling due within one year</b>	6	<b>(25,377)</b>	<b>(23,569)</b>
<b>Net current assets</b>		<b>52,196</b>	<b>51,976</b>
<b>Total assets less current liabilities</b>		<b>107,981</b>	<b>106,964</b>
<b>Creditors, amounts falling due after more than one year</b>	7	<b>(7,452)</b>	<b>(9,197)</b>
<b>Provisions for liabilities</b>	9	<b>(4,757)</b>	<b>(4,249)</b>
<b>Net assets</b>		<b>95,772</b>	<b>93,518</b>
<b>Capital and reserves</b>			
Called up share capital	10	19,928	19,928
Share premium account	10	60,506	60,506
Other reserve	10	8,820	8,820
Hedging reserve	11	(159)	59
Profit and loss account	12	6,677	4,205
<b>Total shareholders' funds</b>	14	<b>95,772</b>	<b>93,518</b>

These financial statements have been approved for issue by the Board of Directors on 16 May 2012



Robert Forrester  
Chief Executive



Michael Sherwin  
Finance Director

# Notes to the Company Financial Statements

The separate financial statements of Vertu Motors plc, the parent undertaking, are presented as required by the Companies Act 2006. As permitted by that Act, the separate financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP)

## 1 Accounting Policies

### Basis of preparation

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 and in accordance with Companies Act 2006 and applicable accounting standards in the United Kingdom. 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 29 February 2012 was £3,348,000 (2011: £10,570,000).

The disclosure of fees paid to the auditors has not been made because the company's consolidated statements are required to disclose such fees on a consolidated basis.

### 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 at the following rates:

Computer equipment	16.6% - 25%
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.

A net 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 suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

# Notes to the Company Financial Statements (continued)

## 1 Accounting Policies (continued)

### Deferred Taxation (continued)

Deferred tax is measured at the average 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 tax is measured on a non-discounted basis.

### Provisions

Provisions for liabilities are recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably measured. If the effect is material, provisions are discounted using a pre-tax discount rate.

### 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.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the investing period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

### Derivative financial instruments

The Company uses derivative financial instruments to reduce the exposure to interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The Company 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 Company 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 fair values of derivative financial instruments used for hedging purposes are disclosed in note 8. Movements on the hedging reserve are shown in note 11. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Any trading derivatives are classified as a current asset or liability.

## Notes to the Company Financial Statements (continued)

### 1 Accounting Policies (continued)

#### Derivative financial instruments (continued)

The Company is exempt from providing the required disclosures of FRS 29 ("Financial Instruments Disclosures") by virtue of the fact that these are included in the consolidated Group financial statements

#### Cash flow hedges

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 profit and loss account within finance income or expense.

Amounts accumulated in equity are recycled in the profit and loss account 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 profit and loss account within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the profit and loss account within finance income or expense.

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 profit and loss account. 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 profit and loss account within finance income or expense.

#### 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. Tangible assets

	Computer Equipment £'000	Office Equipment £'000	Total £'000
<b>Cost</b>			
At 1 March 2011	2,363	192	2,555
Additions	789	53	842
Transfers	12	-	12
<b>At 29 February 2012</b>	<b>3,164</b>	<b>245</b>	<b>3,409</b>
<b>Accumulated Depreciation</b>			
At 1 March 2011	1,155	96	1,251
Depreciation charge	603	38	641
<b>At 29 February 2012</b>	<b>1,758</b>	<b>134</b>	<b>1,892</b>
<b>Net Book Value</b>			
At 29 February 2012	1,406	111	1,517
At 28 February 2011	1,208	96	1,304

## Notes to the Company Financial Statements (continued)

### 3 Fixed asset investments

	2012 £'000	2011 £'000
<b>Cost and net book value</b>		
At beginning of year	53,684	21,779
Additions	584	-
Transfers from other Group companies	-	31,905
<b>At end of year</b>	<b>54,268</b>	<b>53,684</b>

Vertu Motors plc, the Company, as at 29 February 2012 and 28 February 2011, invested in 100% of the ordinary share capital of the following significant subsidiary undertakings, incorporated in the United Kingdom

<b>Company</b>	<b>Principal activity</b>
Vertu Motors (Finance) Limited	Finance company
Boydslaw 103 Limited	Holding company
Vertu Motors (Durham) Limited (previously Patrick (Holdings) Limited)	Holding company
Bristol Street Fifth Investments Limited	Holding company (dormant subsidiaries)
Blake Holdings Limited	Holding company (dormant subsidiaries)
Bristol Street Group Limited	Motor retailer
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 (Pity Me) Limited (previously Patrick (Durham) Limited))	Motor retailer
BSH Pension Trustee Limited	Pension scheme trustee
Vertu Motors (Property) Limited	Property company
Bristol Street Commercials (Italia) Limited	Commercial vehicle retailer
Vertu Fleet Limited	Dormant company
Vertu Motors Third Limited	Dormant company
Vertu Motors (Retail) Limited	Dormant company
Bristol Street Fleet Services Limited	Dormant company
Vertu Motors (AMC) Limited	Dormant company
Vertu Motors (Chingford) Limited (previously Vertu Motors (France) Limited)	Dormant company
Motor Nation Car Hypermarkets Limited	Dormant company
Bristol Street Limited	Dormant company
Bristol Street (No 1) Limited	Dormant company
Bristol Street (No 2) Limited	Dormant company
National Allparts Limited	Dormant company
Tyne Tees Finance Limited	Dormant company
Merfield Properties Limited	Dormant company
Peter Blake Limited	Dormant company
Peter Blake (Chatsworth) Limited	Dormant company
Peter Blake (Clumber) Limited	Dormant company
Dunfermline Autocentre Limited	Dormant company
Typocar Limited	Dormant company

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), were acquired in the year ending 29 February 2012

<b>Company</b>	<b>Principal activity</b>
Widnes Car Centre (1994) Limited*	Holding company
Widnes Car Centre Limited*	Motor retailer**
KC Mobility Solutions Limited*	Wheelchair accessible vehicle converter**
Compare Click Call Limited	Vehicle price comparison website**

## Notes to the Company Financial Statements (continued)

### 3 Fixed asset investments (continued)

\*Held indirectly by the Company

\*\*On 29 February 2012 the trade and assets of these subsidiaries were transferred to other wholly owned subsidiaries of the Group. These subsidiaries will be Dormant companies from 1 March 2012

The Directors believe that the carrying value of the investments is supported by their underlying net assets

### 4 Debtors

	2012 £'000	2011 £'000
Trade debtors	657	567
Derivative financial instruments (note 8)	-	81
Amounts owed by Group undertakings	49,181	26,949
Deferred tax asset (note 5)	341	-
Value Added Tax	1,336	1,487
Prepayments and accrued income	2,025	2,012
	<b>53,540</b>	<b>31,096</b>

### 5 Deferred tax (asset) liability

	2012 £'000	2011 £'000
At beginning of year	99	(540)
(Credited) charged to the profit and loss account	(368)	356
(Credited) charged directly to equity	(72)	283
<b>At end of year</b>	<b>(341)</b>	<b>99</b>

The amounts recognised for deferred tax liabilities / (assets), calculated under the liability method at 25% are set out below

	2012 £'000	2011 £'000
Depreciation in excess of capital allowances	(129)	(85)
Other short term timing differences	(212)	184
<b>Total</b>	<b>(341)</b>	<b>99</b>

### 6 Creditors amounts falling due within one year

	2012 £'000	2011 £'000
Bank loans	2,000	500
Trade creditors	1,987	2,461
Other creditors	12,000	14,000
Corporation tax	1,060	714
Other taxation and social security	2,096	1,913
Accruals and deferred income	6,234	3,981
	<b>25,377</b>	<b>23,569</b>

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

## Notes to the Company Financial Statements (continued)

### 7 Creditors. amounts falling due after more than one year

	2012 £'000	2011 £'000
Bank borrowings	7,243	9,197
Derivative financial instruments (note 8)	209	-
	<u>7,452</u>	<u>9,197</u>

	2012 £'000	2011 £'000
Borrowings are repayable as follows		
Under 1 year	2,000	500
1-2 years	2,000	2,000
2-5 years	5,243	7,197
	<u>9,243</u>	<u>9,697</u>

The bank borrowings are secured on the assets of the Company and the Group. The table below analyses the Company'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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	2,000	7,243	9,243
Trade and other creditors	25,377	-	25,377
<b>At 29 February 2012</b>	<u>27,377</u>	<u>7,243</u>	<u>34,620</u>

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	500	9,197	9,697
Trade and other creditors	23,569	-	23,569
<b>At 28 February 2011</b>	<u>24,069</u>	<u>9,197</u>	<u>33,266</u>

### 8 Derivative financial instruments

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

	2012 Long term Liabilities £'000	2011 Assets £'000
Interest rate swaps – cash flow hedges	<u>209</u>	<u>81</u>

The notional principle amounts of the outstanding interest rate swap contracts at 29 February 2012 were £9,500,000 (2011 £10,000,000).

An interest rate swap was entered into on this same date over an initial amount of £10,000,000 which amortises as repayments are made of the underlying term loan, finally maturing on 15 October 2015.

The movement on the hedging reserve within shareholders' equity is shown within note 11.

## Notes to the Company Financial Statements (continued)

### 9 Provisions for liabilities

Provisions for liabilities comprise

	2012 £'000	2011 £'000
Deferred tax liability (note 5)	-	99
Warranty provision	4,757	4,150
<b>At end of year</b>	<b>4,757</b>	<b>4,249</b>

The movements on provisions are

Warranty provision

	2012 £'000	2011 £'000
At beginning of year	4,150	2,554
Charged to the profit and loss account (additional provisions)	4,594	3,172
Credited to the profit and loss account (unused amounts)	(458)	(242)
Utilised during year	(3,529)	(1,334)
<b>At end of year</b>	<b>4,757</b>	<b>4,150</b>

The provision above relates to used car warranty products sold by the Group. This provision relates to income received in advance, on products sold and likely to be utilised on future repair costs. It is expected that this expenditure will be incurred within three years of the balance sheet date.

### 10 Called up share capital, share premium account and other reserve

	Ordinary shares Number of 10p ordinary Shares ('000)	Called up Share capital £'000	Share premium account £'000	Other reserve £'000	Total £'000
<b>At 1 March 2011 and 29 February 2012</b>	<b>199,278</b>	<b>19,928</b>	<b>60,506</b>	<b>8,820</b>	<b>89,254</b>

The total authorised number of ordinary shares is 270,000,000 shares with a par value of 10p per share. All issued shares are fully paid-up.

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

## Notes to the Company Financial Statements (continued)

### 11 Hedging reserve

	2012 £'000	2011 £'000
<b>Cash flow hedges:</b>		
At beginning of year	59	(672)
Fair value (losses) gains on derivative financial instruments during the year	(290)	81
Deferred taxation on fair value (losses) gains during year	72	(22)
Recycling of cash flow hedge reserve through the profit and loss account	-	933
Deferred tax on recycling of cash flow hedge reserve	-	(261)
<b>At end of year</b>	<b>(159)</b>	<b>59</b>

### 12 Profit and loss account

	2012 £'000	2011 £'000
As at beginning of year	4,205	(6,047)
Profit loss for the year	3,348	10,570
Dividend paid (note 13)	(996)	(399)
Share based payments adjustment (note 15)	120	81
<b>As at end of year</b>	<b>6,677</b>	<b>4,205</b>

### 13 Dividends per share

The dividend paid in the year to 29 February 2012 was 0.5p per share (2011 0.2p per share). A final dividend in respect of the year ended 29 February 2012 of 0.4p per share, amounting to a dividend of £797,000 is to be proposed at the annual general meeting on 24 July 2012. These financial statements do not reflect this dividend payable.

### 14 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Other reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
<b>As at 1 March 2011</b>	<b>19,928</b>	<b>60,506</b>	<b>8,820</b>	<b>59</b>	<b>4,205</b>	<b>93,518</b>
Profit for the year	-	-	-	-	2,352	2,352
Tax on items taken directly to equity	-	-	-	72	-	72
Fair value losses on derivative financial instruments	-	-	-	(290)	-	(290)
Share based payments charge	-	-	-	-	120	120
<b>As at 29 February 2012</b>	<b>19,928</b>	<b>60,506</b>	<b>8,820</b>	<b>(159)</b>	<b>6,677</b>	<b>95,772</b>

## Notes to the Company Financial Statements (continued)

### 14 Reconciliation of movements in shareholders' funds (continued)

	Called up share capital £'000	Share premium account £'000	Other reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
<b>As at 1 March 2010</b>	<b>19,756</b>	<b>60,506</b>	<b>8,328</b>	<b>(672)</b>	<b>(6,047)</b>	<b>81,871</b>
Profit for the year	-	-	-	-	10,171	10,171
Recycling of cash flow hedge reserve	-	-	-	933	-	933
Tax on items taken directly to equity	-	-	-	(283)	-	(283)
Share based payments charge	-	-	-	-	81	81
Fair value gains on derivative financial instruments	-	-	-	81	-	81
New ordinary shares issued	172	-	492	-	-	664
<b>As at 28 February 2011</b>	<b>19,928</b>	<b>60,506</b>	<b>8,820</b>	<b>59</b>	<b>4,205</b>	<b>93,518</b>

### 15 Share based payments

For details of share based payment awards and fair values, see note 30 to the consolidated financial statements. The Company accounts include a share based payments charge for the year of £120,000 (2011 £81,000)

### 16 Contingencies

See note 33 to the consolidated financial statements for details of contingent assets as at the balance sheet date

### 17. Directors' Remuneration

The remuneration of the Directors who served during the year from 1 March 2011 to 29 February 2012 is set out within note 9 to the consolidated financial statements

### 18 Commitments

#### a) Operating Lease Commitments

The Company leases various plant and equipment under non-cancellable operating lease agreements

The Company had annual commitments under non-cancellable operating leases as set out below

	2012 Vehicles £'000	2011 Vehicles £'000
Commitments under non-cancellable operating leases expiring		
No later than 1 year	72	16
Later than 1 year and no later than 2 years	241	189
	<b>313</b>	<b>205</b>

## Notes to the Company Financial Statements (continued)

### **19 Related party transactions**

The Company has taken advantage of the exemption under FRS 8, 'Related Party Disclosures', from having to provide related party disclosures in its own financial statements when those disclosures are presented with consolidated financial statements of its Group