19 October 2011

Vertu Motors plc ("Vertu" or "Group")

Unaudited interim results for the six months ended 31 August 2011

Vertu Motors plc, the fast growing automotive retailer with a network of 82 sales and aftersales outlets across the UK, announces its interim results for the six months ended 31 August 2011.

Operational Highlights

- Challenging market with subdued consumer spending
- Continued growth strategy with 9% increase in sales outlets to 82
- Market share growth in new retail car market up 37% to 3%
- Gross margin rose from 11.5% to 11.6% with aftersales margins improving in all areas, reflecting strategic focus.
- September new car market down but Group profits in the month up year on year
- Like-for-like used car volumes declined by 5.9% reflecting tougher consumer environment
- Consolidation opportunities increasing, and the Group has un-utilised facilities of £35m in addition to cash resources

Financial Highlights

- Revenue grew by 7.0% reflecting substantial growth of the business over the last 12 months
- Profit before tax down 16% to £4.1m (six months ended 31 August 2010 : £4.9m) in line with the Board's expectations
- Balance sheet underpinned by strong freehold and long leasehold property portfolio (including assets held for resale) of £75.7m (31 August 2010 : £72.6m)
- Tangible net assets per share 41.4p (31 August 2010 : 38.3p)
- Strong financial controls and cost focus resulted in reduced overhead levels on a like-for-like basis
- Excellent continued operating cash generation of £7.9m (six months ended 31 August 2010 : £7.3m)
- £4.0m invested in acquisitions, including freehold property purchases
- Lower tax charge due to resolution of prior year items
- Adjusted earnings per share * 1.95p (six months ended 31 August 2010 : 1.94p)
- Earnings per share 1.86p (six months ended 31 August 2010 : 1.83p)
- Interim dividend of 0.2p per share (year ended 28 February 2011 interim dividend : 0.2p per share) to be paid in January 2012
- Given market challenges Board anticipates full year results to be at lower end of the range of market expectations

* adjusted for exceptional charges, amortisation of intangible assets and share based payments charge

Commenting on the results, Robert Forrester, Chief Executive, said:

"I am pleased to report that against the backdrop of continued pressure on the UK consumer, the Group has continued to deliver and invest in its growth strategy. We have opened a further seven sales outlets since 1 March 2011 taking the total to 82. In addition, our new like-for-like retail car volumes were 10% better than the market and aftersales continues to be robust. The Group continues to generate substantial amounts of cash.

"With our strong, ungeared balance sheet and the on-going significant operational cash generation Vertu Motors is clearly in a position where current market weakness will create further acquisition opportunities in line with our growth strategy."

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INTRODUCTION

As anticipated by the Board, the Group saw profitability decline in the six months ended 31 August 2011. Profit before tax fell from £4.9m to £4.1m due, in part, to the year on year impact of the absence of the Government's scrappage programme and new dealerships being acquired or started which generated losses in the period. During the period it became increasingly clear that economic growth and consumer confidence were under pressure and new vehicle sales to private customers declined in the UK at a greater rate than anticipated. Used car demand also appears to have been impacted as disposable incomes were squeezed. In contrast, aftersales revenues were stable and followed a more robust path as exhibited in previous downturns. Aftersales represents 44.1% of the Group's gross profit.

The Group has grown rapidly since its flotation in December 2006 and now operates 82 sales outlets in the United Kingdom. During the period a further seven sales outlets were added through acquisitions or start-ups. There remains considerable opportunity to improve the financial performance of the dealerships acquired in the last two years and the Board and management are focused on delivering this improvement to generate shareholder value. It is clear that the short term economic conditions will place pressure on the sector which will create further expansion opportunities for the Group.

FINANCIAL REVIEW

Revenue in the period rose by 7.0% to £547.0m (six months ended 31 August 2010 : £511.1m). Acquisitions undertaken in the period contributed £7.0m of revenue, with prior year acquisitions accounting for a further £51.4m of this revenue increase. Like-for-like revenues fell by 4.5% reflecting lower vehicle sales. Gross margins strengthened in the period from 11.5% to 11.6% due to the increased contribution of aftersales to the business and the growth of retail vehicle sales at the expense of low margin fleet sales as the Group has expanded through the purchase of new retail focused outlets.

Operating expenses grew as a percentage of turnover from 10.4% to 10.7%. This reflected the like-for-like reduction in revenue as vehicle sales fell and the impact of acquired business. Operating expenses of businesses acquired in the period were 17.8% of revenue reflecting both their immaturity and calendarisation with the peak sales month of March missing. Strong operating controls on costs led to a £1.1m saving in like-for-like operating expenses. Profit before tax reduced from £4.9m from £4.1m as a consequence of the above trends.

During the six months ended 31 August 2011, the Group has made progress in resolving several outstanding matters with HMRC which went back over the last four years. As a result, the taxation charge for the full year is expected to reflect the release of prior year tax provisions, which will reduce the effective tax rate from the headline UK Corporation Tax rate of 26% to below 10%. This lower rate has been applied to these interim results. In future years we expect that the effective tax rate will revert to being closer to the headline UK Corporation Tax rate.

The Group demonstrated strong conversion of operating profit into cash, with cash generated during the six months ended 31 August 2011 covering the dividend, capital expenditure and the spend on acquisitions. This resulted in a net cash balance of £14.0m at 31 August 2011 (31 August 2010 : £15.0m). In addition the Group had undrawn bank facilities of £35m at 31 August 2011. The Group's net assets increased to stand at over £100m at 31 August 2011, with net assets per share growing to 50.2p (31 August 2010 : 46.8p) and tangible net assets per share of 41.4p (31 August 2010 : 38.3p).

Earnings Per Share (EPS) increased from 1.83p to 1.86p per share, and adjusted EPS grew to 1.95p (six months ended 31 August 2010 : 1.94p) per share, with the decline in profit before tax offset by the lower tax charge.

Dividend

The interim dividend of 0.2p per share (year ended 28 February 2011 interim dividend : 0.2p) will be paid on 27 January 2012 to all members appearing on the register of members on the record date 6 January 2012. The ex-dividend date for the shares will be 4 January 2012.

OPERATING REVIEW

Growth strategy and portfolio development

The Group has continued to expand during the six months ended 31 August 2011, adding seven sales outlets in six new locations.

These included two Nissan dealerships in Glasgow and in Widnes, taking the number of Nissan dealerships operated by the Group to four. The Glasgow dealership, developed on a freehold site acquired by the Group last year, is the premier Nissan dealership in the West of Scotland offering the full Nissan range including electric, high performance and commercial vehicles. The Widnes acquisition also included a mobility conversion business which includes both Wheelchair Accessible Vehicles and more tailored vehicle adaptations.

A further two Hyundai outlets were also added, in Nottingham and in Peterlee, giving the Group four Hyundai dealerships in total. The Group acquired its fifth Mazda dealership in Bristol, and introduced the Chrysler Jeep franchise into this flagship property during August 2011. The Group's third SEAT dealership was also acquired in Barnsley in the period.

These acquisitions added three more freehold properties to the Group portfolio, further enhancing the asset backing of the balance sheet.

During the period these acquired and start-up businesses incurred a loss of £0.2m as the Group began the process of turning around the previous underperformance and invested in the opening marketing campaigns for the start-up operations. In addition, the Group did not benefit from the higher level of sales enjoyed in the key March plate change month from these dealerships. The Board remains confident that, while the current market conditions make the process of turning around underperforming businesses more challenging, the fundamentals of the Vertu acquisition strategy (increased sales of new and used vehicles post-acquisition resulting in the growth of the vehicle parc and improved aftersales returns) remain solid and a sound basis for improving shareholder returns.

Dealership Operations

Vehicle Sales Analysis
For the six month period to 31 August

	HY2012 Core	HY2012 Acq**	HY2012 Total	HY2011 Core*	L4L % Variance
New retail	10,395	2,639	13,034	10,965	(5.2%)
Fleet and commercial	8,663	73	8,736	8,680	(0.2%)
Used retail	16,204	3,576	19,780	17,221	(5.9%)
	35,262	**6,288**	**41,550**	**36,866**	**(4.4%)**

* HY2011 volumes exclude businesses owned for a part-period
** Dealerships acquired since the beginning of HY2011 are excluded from like-for-like comparisons

Revenue and Margins

	New car retail	New Fleet and Commercial	Used cars	Aftersales	Total
Six months ended 31 August 2011					
Revenue (£'m)	170.6	133.9	188.8	53.7	**547.0**
Revenue (%)	31	24	35	10	**100**
Gross Margin %	7.4	2.1	10.5	42.5*	**11.6**
Six months ended 31 August 2010					
Revenue (£'m)	145.7	137.3	176.5	51.6	**511.1**
Revenue (%)	29	27	35	9	**100**
Gross Margin %	7.5	2.5	10.9	39.7*	**11.5**
Year ended 28 February 2011					
Revenue (£'m)	291.6	258.9	345.0	103.4	**998.9**
Revenue (%)	29	26	35	10	**100**
Gross Margin %	7.5	2.4	11.3	40.8*	**11.9**

*margin in aftersales expressed on internal and external turnover

The Group's private new car sales volumes declined by 5.2% on a like-for-like basis in the six months ended 31 August 2011 compared to a fall in UK private new car registrations of 15.1% overall. Franchises represented by the Group saw their private new car registrations fall by 20.0% and hence the Group significantly outperformed the market in the period and grew market share. This was against the backdrop of the Government's scrappage programme featuring in the earlier month's comparatives and an unexpected weakening in consumer demand from April onwards. New car sales are considered to be the portion of the Group's business most closely correlated to GDP movements and weakening economic and consumer confidence has resulted in declining new vehicle sales to private customers.

The natural disaster in Japan in March impacted the volumes of cars imported by a number of manufacturers but particularly Honda and Mazda. This reduced the Group's sales of new cars in this period. By the end of September supply levels have returned to normality.

Vehicle manufacturers who import new cars into the UK have faced the continued impact of weak sterling. Prices have increased to the consumer in recent years and this is also reducing sector volumes when combined with the tightening in consumer behaviour. The average price of new retail cars sold in the period was £11,958 and this represents an increase of 19.8% over the last three years. Gross profit on a per unit basis in new retail car sales was flat period on period and margin percentages declined from 7.5% to 7.4% reflecting continued pricing pressures. Due to the overall volume falls new retail car sales saw like-for-like gross margin decline by £0.6m.

As a consequence of acquisitions, new retail car sales volumes increased from 11,224 to 13,034 cars. The Group's share of the UK retail car market therefore rose to 3.0% from 2.2%.

Fleet and commercial like-for-like vehicle sales volumes fell by 0.2% in the period due to the Group undertaking lower volumes of low margin car fleet business as vehicle manufacturers continued to reduce their car volumes to daily rental operators. This trend partly explains a shift in mix evident in the fleet market in favour of specialist manufacturers. In contrast, the Group grew commercial van and truck volumes by 15.3% on a like-for-like basis. Commercial volumes have grown overall with UK light commercial registrations up 17.8% in the period whilst heavy commercial vehicle registrations rose 20.3%. The market for commercial vehicles still remains substantially below pre-recession levels. The Group's fleet and commercial gross profit per unit has decreased as exchange rates led to reduced support levels from vehicle manufacturers.

The used car market in 2011 has been challenging as a result of weakening consumer demand (particularly for larger cars in the face of increased fuel costs) and above average declines in used car values over the summer months. There has been a clear market shift towards smaller, older and hence cheaper cars. The shift has been aided by a shortage of 1 to 3 year old cars as manufacturers have constrained supply to short-cycle operators such as daily rental companies. In spite of these supply constraints, weaker market demand has resulted in prices being constrained for anything other than small, cheaper cars.

The Group's used car volumes on a like-for-like basis fell 5.9% in the six months ended 31 August 2011 reflecting the above trends. This fall compares to strong volume growth in the preceding 12 months. Like-for-like gross margins were stable at 10.9% (six months ended 31 August 2010 : 11.0%). The dealerships acquired in recent periods operated at a lower gross margin in used cars than the core dealerships reflecting the Group strategy to aggressively grow vehicle parcs in immature dealerships. Overall, used car gross margins fell due to the impact of the acquired businesses in recent periods from 10.9% to 10.5%. Gross margin on a like-for-like basis from used cars fell £1.3m year on year reflecting predominantly the reduced volumes. Total volumes of used cars sold by the Group rose 7.7% from 18,371 to 19,780.

Aftersales activities, such as servicing, body repairs and supply of parts also remain a crucial element of the business model. Aftersales operations generated 44.1% of the Group's gross profit (six months ended 31 August 2010 : 43.1%) in the period.

Total aftersales revenues on a like-for-like basis were down from £50.3m to £47.8m reflecting lower sales in trade parts operations. This reduction arose due to declining usage of parts in the wider body repair market as motor insurance claims reduced and more insurance companies seek to repair cars rather than replace damaged panels with new body panels. Trade parts operations are the lowest margin activity in the aftersales area. Aftersales margins rose on a like-for-like basis from 39.6% to 41.8% reflecting margin improvements in service, bodyshop and parts operations. Overall like-for-like aftersales gross profits were flat, however, operating expense reductions led to an overall increase in profitability.

Service revenues and profits were flat year on year despite the 0 to 3 year old car vehicle parc declining and this segment of the market being the core proposition for franchised dealers' service operations. The vehicle parc reduction is a product of the decline in new car sales since 2008. The Group has offset this impact by improving customer retention rates and increasing the amount spent per customer visit through enhanced customer focused processes. These strategies have increased hours sold per visit and the sales of incremental products such as tyres, oil top-ups and fuel efficiency enhancing products.

The Group has recently launched its own service plan product into its dealerships to augment service plan sales made from a central contact centre. These plans give consumers servicing for a fixed monthly cost. As a consequence of this dealership launch in September the Group sold 1,312 service plans representing an increase of 56% year on year. This strategy will underpin future retail service and parts sales since it will further enhance customer retention levels into the higher margin aftersales operations. The impact will be particularly marked in increasing the retention of used car customers owning older cars where historically the Group's retention has been low.

To support the marketing of both vehicle sales and aftersales the Group has continued to invest in a proactive digital marketing and social media strategy. As a result www.bristolstreet.co.uk is now the third largest franchised dealer group website by market share in the UK. The customer experience on the website is industry leading. The new car section offers a multi-offer format with enhanced images, industry news, independent reviews and video content. The used car section carries a minimum of ten images and full vehicle specifications. The aftersales section enables customers to book services and purchase service plans online.

CURRENT TRADING AND OUTLOOK

The UK consumer environment has been increasingly challenging and volatile since April 2011. Weakness of sterling has increased prices of new cars imported into the UK and has reduced the ability and willingness of many vehicle manufacturers to stimulate the new car market through incentives and consumer offers. Volumes of UK private new car sales, in particular, appear unlikely to improve until consumer confidence and the UK's economic prospects revive or there is a strengthening in the value of sterling. In October 2011 the SMMT has revised its forecasts for next year's UK new car market to be flat with 2011. Aftersales operations are, however, far more resilient historically to economic pressures and remain robust.

September is a crucial month for Group profitability in the second half of the financial year since it is a plate change month. The trends noted above resulted in September profitability being behind the Board's expectations for the month, however, overall Group profits were up year on year. Significantly, the Group's like-for-like private new car sales volumes declined by 7.9% compared to a fall in UK private new car registrations of 9.3%, continuing the Group's trend of outperforming the market and growing market share. In the light of the market trends outlined above, the Board anticipates that the full year results will be at the lower end of market expectations. The Board remains confident that with its strong balance sheet, cash position, cash generation, and the continuation of the turnaround strategy of acquisitions, the Group is well placed to take advantage of acquisition opportunities in the coming months to further execute against the Group's growth strategy.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 31 August 2011

	Note	Six months ended 31 Aug 2011 £'000	Six months Ended 31 Aug 2010 £'000	Year ended 28 Feb 2011 £'000
Revenue				
Continuing operations		540,040	511,148	998,926
Acquisitions		7,012	-	-
		547,052	**511,148**	**998,926**
Cost of sales				
Continuing operations		(477,664)	(452,432)	(880,094)
Acquisitions		(5,956)	-	-
		(483,620)	**(452,432)**	**(880,094)**
Gross profit				
Continuing operations		62,376	58,716	118,832
Acquisitions		1,056	-	-
		63,432	**58,716**	**118,832**
Operating expenses				
Continuing operations		(57,524)	(53,073)	(110,090)
Acquisitions		(1,248)	-	-
		(58,772)	**(53,073)**	**(110,090)**
Operating profit before amortisation, share based payments charge and exceptional charges				
Continuing operations		4,852	5,643	8,742
Acquisitions		(192)	-	-
		4,660	**5,643**	**8,742**
Amortisation of intangible assets		(144)	(125)	(274)
Share based payments charge		(60)	(122)	(81)
Exceptional charges	5	-	-	(2,100)
Operating profit		**4,456**	**5,396**	**6,287**
Finance income	4	775	875	2,089
Finance costs	4	(1,137)	(1,362)	(2,462)
Exceptional termination of interest rate contract	-	-	-	(544)
Exceptional write off loan arrangement fees	-	-	-	(119)
Profit before tax, amortisation, share based payments charge and total exceptional charges		4,298	5,156	8,369
Amortisation of intangible assets		(144)	(125)	(274)
Share based payments charge		(60)	(122)	(81)
Total exceptional charges	5	-	-	(2,763)
Profit before tax		**4,094**	**4,909**	**5,251**
Taxation	6	(385)	(1,276)	(1,227)
Profit for period attributable to equity holders		**3,709**	**3,633**	**4,024**
Basic earnings per share (p)	7	**1.86**	**1.83**	**2.02**
Diluted earnings per share (p)	7	**1.86**	**1.83**	**2.02**
Adjusted earnings per share (p)	7	**1.95**	**1.94**	**3.23**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 31 August 2011

	Note	Six months ended 31 Aug 2011 £'000	Six months ended 31 Aug 2010 £'000	Year ended 28 Feb 2011 £'000
Profit for the period		**3,709**	**3,633**	**4,024**
Other comprehensive income (expense)				
Actuarial (losses) gains on retirement benefit obligations	11	(543)	(2,444)	2,572
Deferred tax relating to actuarial losses (gains) on retirement benefit obligations		142	684	(693)
Cash flow hedges	8	(299)	-	81
Deferred tax relating to cash flow hedges	8	76	-	(22)
Recycling of cash flow hedge reserve to the income statement	8	-	225	933
Deferred tax on recycling of cash flow hedge reserve	8	-	(63)	(261)
Other comprehensive (expense) income for the period, net of tax		**(624)**	**(1,598)**	**2,610**
Total comprehensive income for the period attributable to equity holders		**3,085**	**2,035**	**6,634**

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 August 2011

	Note	31 August 2011 £'000	31 August 2010 £'000	28 February 2011 £'000
Non-current assets				
Goodwill		20,490	20,203	20,509
Other intangible assets		1,008	1,019	1,060
Derivative financial instruments		-	-	81
Retirement benefit asset	11	1,773	-	2,295
Property, plant and equipment		77,439	73,800	74,063
		100,710	**95,022**	**98,008**
Current assets				
Inventories		194,864	177,511	191,656
Property assets held for sale		6,630	4,900	6,630
Trade and other receivables		27,024	29,095	28,828
Cash and cash equivalents		23,771	26,969	23,442
Total current assets		**252,289**	**238,475**	**250,556**
Total assets		**352,999**	**333,497**	**348,564**
Current liabilities				
Trade and other payables		(230,839)	(214,613)	(229,156)
Current tax liabilities		(3,976)	(4,395)	(3,937)
Borrowings		(1,500)	(1,358)	(500)
Total current liabilities		**(236,315)**	**(220,366)**	**(233,593)**
Non-current liabilities				
Borrowings		(8,288)	(10,608)	(9,303)
Derivative financial instruments		(218)	(673)	-
Deferred income tax liabilities		(3,631)	(2,920)	(4,016)
Retirement benefit liability	11	-	(2,875)	-
Provisions for other liabilities		(4,499)	(2,712)	(4,150)
		(16,636)	**(19,788)**	**(17,469)**
Total liabilities		**(252,951)**	**(240,154)**	**(251,062)**
Net assets		**100,048**	**93,343**	**97,502**
Capital and reserves attributable to equity holders of the Group				
Ordinary shares		19,928	19,928	19,928
Share premium		60,506	60,506	60,506
Other reserve		8,820	8,820	8,820
Hedging reserve	8	(164)	(510)	59
Retained earnings		10,958	4,599	8,189
Shareholders' equity		**100,048**	**93,343**	**97,502**

CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 August 2011

	Note	Six months ended 31 August 2011 £'000	Six months ended 31 August 2010 £'000	Year ended 28 February 2011 £'000
Operating profit		4,455	5,396	6,287
(Profit) loss on sale of tangible fixed assets		(5)	(6)	171
Amortisation of intangible assets		144	125	274
Depreciation of property, plant and equipment		1,870	1,574	3,389
Increase in inventories		(1,095)	(2,815)	(5,852)
Decrease (increase) in trade and other receivables		1,178	(3,879)	(1,479)
Impairment of assets held for resale		-	-	1,508
Increase in payables		993	6,607	6,028
Increase in provisions		349	158	1,595
Share based payments charge		60	122	81
Cash generated from operations		**7,949**	**7,282**	**12,002**
Tax received		-	123	311
Tax paid		(558)	(809)	(1,742)
Finance income received		95	42	711
Finance costs paid		(392)	(386)	(577)
Payment to terminate swap		-	(672)	(1,041)
Net cash generated from operating activities		**7,094**	**5,580**	**9,664**
Cash flows from investing activities				
Acquisition of businesses, net of cash, overdrafts and borrowings acquired		(3,993)	(7,375)	(11,977)
Acquisition of freehold land and buildings		-	(2,803)	(2,604)
Purchases of intangible fixed assets		(74)	(181)	(371)
Purchases of property, plant and equipment		(2,133)	(2,535)	(4,331)
Proceeds from disposal of property, plant and equipment		34	20	54
Net cash outflow from investing activities		**(6,166)**	**(12,874)**	**(19,229)**
Cash flows from financing activities				
Proceeds from borrowings	9	-	-	10,000
Repayment of borrowings	9	-	(84)	(10,941)
Dividends paid to company shareholders		(599)	-	(399)
Net cash (outflow) inflow from financing activities		**(599)**	**(84)**	**(1,340)**
Net increase (decrease) in cash and cash equivalents	**9**	**329**	**(7,378)**	**(10,905)**
Cash and cash equivalents at beginning of period		23,442	34,347	34,347
Cash and cash equivalents at end of period		**23,771**	**26,969**	**23,442**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the six months ended 31 August 2011

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2011	**19,928**	**60,506**	**8,820**	**59**	**8,189**	**97,502**
Profit for the period	-	-	-	-	3,709	3,709
Actuarial losses on retirement benefit obligations	-	-	-	-	(543)	(543)
Tax on items taken directly to equity	-	-	-	76	142	218
Fair value losses	-	-	-	(299)	-	(299)
Total comprehensive income for the period	**-**	**-**	**-**	**(223)**	**3,308**	**3,085**
Share based payments charge	-	-	-	-	60	60
Dividend paid	-	-	-	-	(599)	(599)
As at 31 August 2011	**19,928**	**60,506**	**8,820**	**(164)**	**10,958**	**100,048**

For the six months ended 31 August 2010

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 March 2010	**19,756**	**60,506**	**8,328**	**(672)**	**2,604**	**90,522**
Profit for the period	-	-	-	-	3,633	3,633
Actuarial losses on retirement benefit obligations	-	-	-	-	(2,444)	(2,444)
Tax on items taken directly to equity	-	-	-	(63)	684	621
Recycling of cash flow hedge reserve	-	-	-	225	-	225
Total comprehensive income for the period	**-**	**-**	**-**	**162**	**1,873**	**2,035**
Share based payments charge	-	-	-	-	122	122
New ordinary shares issued	172	-	492	-	-	664
As at 31 August 2010	**19,928**	**60,506**	**8,820**	**(510)**	**4,599**	**93,343**

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
As at 1 March 2010	**19,756**	**60,506**	**8,328**	**(672)**	**2,604**	**90,522**
Profit for the year	-	-	-	-	4,024	4,024
Actuarial gains on retirement benefit obligations	-	-	-	-	2,572	2,572
Tax on items taken directly to equity	-	-	-	(283)	(693)	(976)
Recycling of cash flow hedge reserve	-	-	-	933	-	933
Fair value gains	-	-	-	81	-	81
Total comprehensive income for the year	**-**	**-**	**-**	**731**	**5,903**	**6,634**
Dividend paid	-	-	-	-	(399)	(399)
Share based payments charge	-	-	-	-	81	81
New ordinary shares issued	172	-	492	-	-	664
As at 28 February 2011	**19,928**	**60,506**	**8,820**	**59**	**8,189**	**97,502**

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

NOTES

For the six months ended 31 August 2011

1. Basis of Preparation

Vertu Motors plc is a Public Limited Company which is listed on the Alternative Investment Market (A*i*M) 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 financial information for the period ended 31 August 2011 and similarly the period ended 31 August 2010 has neither been audited nor reviewed by the auditors. The financial information for the year ended 28 February 2011 has been based on information in the audited financial statements for that period.

The information for the year ended 28 February 2011 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that period has been delivered to the Registrar of Companies. The Auditors' Report on those accounts was not qualified and did not contain an emphasis of matter statement under section 498 of the Companies Act 2006.

2. Accounting policies

The annual consolidated financial statements of Vertu Motors plc are prepared in accordance with IFRSs as adopted by the European Union. The annual report has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, share based payments and financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

The accounting policies adopted in this interim financial report are consistent with those of the Group's financial statements for the year ended 28 February 2011 and can be found on our website, www.vertumotors.com.

In addition, this unaudited interim financial report does not comply with IAS 34 Interim Financial Reporting, which is not required to be applied under the AiM Rules.

3. Segmental information

The Group complies with 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. As such, the Group has only 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 aftersales operations. Management is organised based on the dealership operations as a whole rather than the specific business streams.

These 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 decided to include an additional voluntary disclosure analysing revenue and gross profit within the reportable segment.

	New car retail	New Fleet and Commercial	Used cars	Aftersales	Total
Six months ended 31 August 2011					
Revenue (£'m)	170.6	133.9	188.8	53.7	**547.0**
Revenue (%)	31	24	35	10	**100**
Gross Margin %	7.4	2.1	10.5	42.5*	**11.6**
Six months ended 31 August 2010					
Revenue (£'m)	145.7	137.3	176.5	51.6	**511.1**
Revenue (%)	29	27	35	9	**100**
Gross Margin %	7.5	2.5	10.9	39.7*	**11.5**
Year ended 28 February 2011					
Revenue (£'m)	291.6	258.9	345.0	103.4	**998.9**
Revenue (%)	29	26	35	10	**100**
Gross Margin %	7.5	2.4	11.3	40.8*	**11.9**

*margin in aftersales expressed on internal and external turnover

4. Net finance costs

	Six months ended 31 August 2011 £'000	Six months ended 31 August 2010 £'000	Year ended 28 February 2011 £'000
Interest on short term bank deposits	37	42	82
Vehicle stocking interest	58	61	650
Fair value gains on derivative financial instruments	-	85	-
Other finance income relating to Group pension scheme	680	687	1,357
Finance income	**775**	**875**	**2,089**
Bank loans and overdrafts	(392)	(344)	(658)
Recycling of cash flow hedge reserve	-	(225)	(224)
Other finance costs relating to Group pension scheme	(738)	(786)	(1,567)
Other finance costs	(7)	(7)	(13)
Finance costs	**(1,137)**	**(1,362)**	**(2,462)**

5. Exceptional charges

	Six months ended 31 August 2011 £'000	Six months ended 31 August 2010 £'000	Year ended 28 February 2011 £'000
Impairment of assets held for resale	-	-	1,508
Reorganisation and closure costs	-	-	592
	-	**-**	**2,100**
Recycling of cash flow hedge reserve	-	-	544
Loan arrangement fees written off	-	-	119
	-	**-**	**2,763**

Assets held for resale have been reviewed by the Board and no additional impairment provision (Year ended 28 February 2011: £1.5m) has been charged to the income statement.

6. Taxation

The tax charge for the six months ended 31 August 2011 has been provided at the effective rate of 9.4% (Six months ended 31 August 2010: 26.0%).

From 1 April 2011 the main rate of Corporation tax was 26% and this will reduce to 25% from 1 April 2012.

7. 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 period or the diluted weighted average number of ordinary shares in issue in the period.

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. None of the share options in issue have an exercise price below fair value.

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 period.

	Six months ended 31 August 2011 £'000	Six months ended 31 August 2010 £'000	Year ended 28 February 2011 £'000
Profit attributable to equity shareholders	3,709	3,633	4,024
Amortisation of intangible assets	144	125	274
Share based payments charge	60	122	81
Exceptional charges	-	-	2,763
Tax effect of adjustments	(30)	(35)	(711)
Adjusted earnings attributable to equity shareholders	**3,883**	**3,845**	**6,431**
Weighted average number of shares in issue ('000s)	199,278	198,539	198,901
Potentially dilutive shares ('000s)	-	-	-
Diluted weighted average number of shares in issue ('000s)	**199,278**	**198,539**	**198,901**
Basic earnings per share	**1.86p**	**1.83p**	**2.02p**
Diluted earnings per share	**1.86p**	**1.83p**	**2.02p**
Adjusted earnings per share	**1.95p**	**1.94p**	**3.23p**
Diluted adjusted earnings per share	**1.95p**	**1.94p**	**3.23p**

8. Hedging reserve

	31 August 2011 £'000	31 August 2010 £'000	28 February 2011 £'000
Cash flow hedge:			
At beginning of period	59	(672)	(672)
Fair value (losses) gains on derivative financial instruments during the period	(299)	-	81
Deferred taxation on fair value losses (gains) during period	76	-	(22)
Recycling of cash flow hedge reserve through the income statement	-	225	933
Deferred tax on recycling of cash flow hedge reserve	-	(63)	(261)
At end of period	**(164)**	**(510)**	**59**

9. Reconciliation of net cash flow to movement in net cash

	31 August 2011 £'000	31 August 2010 £'000	28 February 2011 £'000
Net increase (decrease) in cash and cash equivalents	329	(7,378)	(10,905)
Cash inflow from increase in borrowings	-	-	(10,000)
Cash outflow from repayment of borrowings	-	84	10,941
Cash movement in net cash	**329**	**(7,294)**	**(9,964)**
Capitalisation of loan arrangement fees	75	-	277
Loan arrangement fees written off	-	-	(119)
Issue and redemption of redeemable loan notes	-	(1,190)	-
Amortisation of loan arrangement fee	(60)	(37)	(79)
Non cash movement in net cash	**15**	**(1,227)**	**79**
Movement in net cash	**344**	**(8,521)**	**(9,885)**
Opening net cash	**13,639**	**23,524**	**23,524**
Closing net cash	**13,983**	**15,003**	**13,639**

10. Acquisitions

On 18 April 2011, the Group acquired the trade and assets of a SEAT dealership in Barnsley for cash consideration of £0.9m.

On 1 June 2011 the Group acquired the trade and assets of a Mazda dealership in Bristol for cash consideration of £0.4m.

On 31 August 2011, the Group acquired the entire issued share capital of Widnes Car Centre (1994) Limited which operates a Nissan dealership in Widnes, and a mobility vehicle conversion business based in Batley, West Yorkshire. Consideration for the shares payable in cash is estimated to be £3.2m.

11. Retirement benefits

The defined benefit plan assets and liabilities have been updated to reflect their market value as at 31 August 2011. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial gain or loss in the Consolidated Statement of Comprehensive Income in accordance with the Group's accounting policy.

During the six month period ended 31 August 2011, movements in equity and bond markets led to a loss on assets of £606,000. There have also been changes in the financial assumptions underlying the calculation of the liabilities in the same period. In particular, the long-term outlook for inflation has decreased. This has led to a lower value being placed on liabilities at 31 August 2011 than assumed at the beginning of the financial year, resulting in a gain of £63,000. Therefore, in total, there was an actuarial loss in the period of £543,000 before deferred taxation, recognised in the Consolidated Statement of Comprehensive Income.