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Motors plc

ANNUAL REPORT & ACCOUNTS

For the year ended 28 February 2011

...built on trust

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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 74 franchised and three non-franchised sales operations. Indeed, our four year record is already impressive:

Vertu: 2008 – 2011 a four year track record of growth

	Feb 2008	Feb 2009	Feb 2010	Feb 2011
Number of Outlets	44	42	59	**75**
Turnover * (£m)	677	761	755	**946**
Gross Profit % *	11.5%	11.7%	12.4%	**11.9%**
Adjusted Operating Profit % *	0.45%	0.72%	0.99%	**1.03%**
Adjusted PBT (£'000)	1,834	3,471	6,856	**8,369**
Group Share of UK New Retail Private Market	1.4%	1.8%	1.7%	**2.4%**

* Continuing operations

The Board has maintained a consistent strategy since flotation to grow a scaled motor retail dealership Group driving performance improvements through the implementation of consistent business processes and systems. The recruitment, development and retention of high performing motor retail professionals is of paramount importance and the Board has developed its business model to ensure the culture of the Group is entrepreneurial and consistent with the encouragement of top performers. This has led to the Group delivering increasing profits, growing market share and generating strong operating cashflows throughout the recessionary period of the past few years.

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. This increasing local vehicle parc coupled with high levels of customer retention then drives higher aftersales activity levels. This virtuous circle of growth has allowed 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 this period. Over two million new cars are needed to be sold per annum to maintain the current size of the total UK vehicle parc and in 2011 the market is expected to be below this level. Going forward the SMMT have forecast the new car market to naturally return to above 2 million units in 2012. Following a contraction in the sector these higher levels of new car sales will be sold and maintained by a smaller number of dealerships than prior to the recession.

It is also clear that the current focal point for retail demand is cars with low running costs particularly through increased fuel efficiency. While the shift in demand has been moving in this direction for some time, the above inflation increases in fuel and insurance have now accelerated this trend. The Group is positioned with manufacturer partners who are focused on delivering this market requirement. In 2011 the Group will commence retailing electric vehicles for the first time with Renault and Nissan and in 2012 with Vauxhall.

The Group has delivered against its stated strategy in 2010/11 through successfully increasing the number of sales outlets operated from 59 to 77 since 1 March 2010. This includes two additional outlets opened since the year end. A significant number of the businesses acquired in the year have the potential for performance improvements over a three to four year period to deliver higher margins and returns. These turnarounds are a key element of the Group's strategy to deliver shareholder value and to generate future earnings growth. Dealerships acquired in the year ended 28 February 2011 generated a loss of £1.0m, due in part to the peak trading month of March being excluded from the results given the timing of the acquisitions undertaken.

Chairman's Report (continued)

The Group's robust balance sheet position with net cash of £13.6m at 28 February 2011 and committed debt capacity of an additional £35 million enables further expansion of the Group to be undertaken from existing resources.

Going forward the Group's growth strategy remains in place, as we look to benefit from our strong balance sheet and the structural growth opportunities available to acquisitive motor retail businesses in what remains a highly fragmented market. The Board is committed to continuing to build a sustainable, scalable business to deliver shareholder value.

Financial Commentary

Revenue in the year increased to £998.9m (2010 : £818.9m) reflecting both the impact of acquisitions made during the period and growth in the underlying business. Like-for-like revenue increased £37.4m in the year reflecting both increases in vehicles sales prices and the number of vehicles sold. Gross margins strengthened in the second half after having fallen from the very high levels seen in the first half of last year. The mix of sales from the dealerships acquired during the year had a significantly lower proportion of low margin fleet business. This trend will continue to strengthen margins for the enlarged business.

Adjusted EBITDA increased to £12.1m, compared to £10.5m in the year ended 28 February 2010. Profitability growth included a £2.4m increased contribution from acquisitions made in the year ended 28 February 2010. This was partly offset by the losses of £1.0m relating to acquisitions made in the current year. The core business saw profits flat despite the return to more normal, lower used car margins compared to the unprecedented high levels in the prior year and the ending of the Government Scrappage Scheme in the summer of 2010. Importantly, aftersales operations saw a like-for-like increase in profitability of £1.5m year on year. EBITDA and profit before tax were £10.0m (2010 : £9.0m) and £5.3m (2010 : £4.6m) respectively. Exceptional costs of £2.8m (2010 : £1.9m) were incurred in the period predominantly reflecting losses on property held for resale and costs related to the refinancing of the Group's borrowing facilities and the restructuring of the associated hedging arrangements.

The Group has continued to focus on working capital management in the period and generated £12.0m of operating cashflow. Strong cash generation has resulted in the Group having a net cash position of £13.6m at 28 February 2010 despite significant investment in new businesses in the period. The Board intends to continue to fund the acquisition of additional motor retail dealerships from these resources and from its available committed loan and working capital facilities of £35m.

Current Trading and Outlook

The Group has traded ahead of the Board's expectations in March and April reflecting a stronger than budgeted new car and aftersales performance offsetting slower used car sales. Cash generation has also been significantly ahead of the Board's expectations.

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 in March and April fell by 18.6% year on year partly reflecting the impact of the Government's Scrappage Scheme in the prior year. The Group's like-for-like new retail volumes declined 10.4% and therefore the Group gained market share. Substantial bonus income from manufacturers was earned by achieving manufacturer targets at high levels, and overall profitability in new cars was ahead of the Board's expectations albeit, as anticipated, behind last year's levels on a like-for-like basis.

Chairman's Report (continued)

Current Trading and Outlook (continued)

The fragility and unpredictability of retail consumer demand in March and in April, as witnessed elsewhere in the consumer facing economy, was apparent with the Group's like-for-like used retail volumes down 9.0% year-on-year. The impact of this higher than expected volume shortfall has been partially mitigated by higher margins being achieved.

Aftersales profitability since the year-end has exceeded the Board's expectations, running ahead of prior year and budgeted levels, and continues to benefit from the customer retention initiatives being executed by the Group.

There is a degree of uncertainty over the impact of disruption of new vehicle supply over the next six months due to the natural disaster which occurred in Japan on 11 March. The Board anticipates that certain manufacturers will see a curtailment of new vehicle supply and the Board will continue to assess the short term impact of this as a clearer picture emerges. This, together with the underlying subdued consumer environment and pricing pressures on new cars coming from commodity price rises is likely to dampen the growth of the new car market in the short term. In contrast, used vehicle pricing is likely to be boosted by any new vehicle supply constraints which may enhance used car margins. Aftersales remains resilient and an area of opportunity.

The Group has made significant progress executing its growth strategy having undertaken a significant number of acquisitions which have been fully integrated into the Group's management systems and processes. 16 dealerships were added to the Group's portfolio during the year to February 2011, and a further two since the year-end. These dealerships are showing a consistent trend of enhanced performance with the scope for significant margin enhancement as they generate retail margins closer to the core Group average over time. This, combined with the resilience of the Group's used car and aftersales operations, gives the Board confidence about 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 is considering a number of additional acquisition opportunities which are likely to lead to further expansion of the Group's number of sales outlets in the coming months.

Dividend

As the cash generation of the underlying business grows, the Board has established the payment of dividends with a maiden interim dividend of 0.2p paid in January 2011 and a final dividend of 0.3p recommended to be paid in July 2011. The dividend strategy will be progressive going forwards with an interim and final component.

P R Williams
Non-Executive Chairman

Chief Executive's Review

Portfolio Development

The Group has expanded the number of sales outlets from 59 on 1 March 2010 to 77 today. These purchases of both freehold and leasehold dealerships have been made with a view to improving their financial performance over a three to four year period through a virtuous circle of increased vehicle sales, leading to an increased vehicle parc and hence growing higher margin aftersales revenues.

The Group currently operates 74 franchised and three non-franchised sales operations from 60 United Kingdom locations. These are summarised below:

Dealership numbers	**May**	**May**
Car Franchises	**2011**	**2010**
Ford	20	17
Vauxhall	10	7
Peugeot	8	7
Honda	5	5
Renault	5	3
Citroen	4	4
Mazda	4	2
Hyundai	3	2
SEAT	3	1
Fiat	2	2
Nissan	2	-
Alfa Romeo	1	-
Chevrolet	1	1
Mitsubishi	1	-
	69	**51**
Commercial Vehicle Franchises		
Iveco	3	3
Fiat	1	1
	4	**4**
Motorcycle franchise		
Honda	1	1
Non-franchised outlets		
Bristol Street Motor Nation	3	4
Sales outlets	**77**	**60**
Stand alone Service Centres	-	2
Total	**77**	**62**

The Group added three Ford and three Vauxhall dealerships in the year. These franchises represent the largest market share franchises in the UK and exhibit very strong levels of aftersales activity. The acquisition of Glasgow Ford and Hamilton Ford in July 2010 augmented the Macklin Motors brand in Scotland. The Group now has eight sales outlets in Scotland having added seven in the year. This number will be added to on 1 July 2011 when the Group opens a new Nissan dealership in South Glasgow. This start-up operation on a previously acquired brown field site, adjacent to the Group's Ford and Mazda operations, will encompass sales of electric vehicles, cars and commercial vehicles in addition to a Nissan Sports Performance Centre selling the GTR and 370 models.

The Nissan development in Glasgow follows the Group's entry into the Nissan franchise in October 2010 with the acquisition of a Renault and Nissan dealership in Altrincham from Lookers plc. Subsequent to this the Group also re-franchised the Motor Nation used car outlet in Darlington to the Nissan franchise.

Chief Executive's Review (continued)

Portfolio Development (continued)

The Group expanded its presence in the Cheshire area during the year. In addition to the Altrincham outlet noted above, the Group acquired Vauxhall outlets in Crewe and Macclesfield in June 2010 and Ford and Renault in Macclesfield in October 2010. These businesses, alongside the existing Group operations in the area, now bring the number of sales outlets operated in Cheshire to eight

During the period the Group acquired Derby SEAT representing its second SEAT dealership. SEAT is the only Volkswagen Group franchise operated by the Group and produces very high quality, desirable products which are highly affordable to the consumer. This key relationship has been further deepened in April 2011 with the acquisition of Barnsley SEAT.

The Group also added Alfa Romeo and Mitsubishi to the portfolio through multi-franchising existing operations in Worcester and Hamilton respectively. This provides the Group with benefits such as allowing access to the fleet market for these franchises and growing aftersales activity in the specific dealerships through servicing the historic vehicle parc in these geographies.

The Group has also increased its capacity in a number of existing operations through strategic relocations. In March 2010, Gloucester Renault was relocated to a new stand alone dealership and in February 2011, Nottingham Citroen relocated to significantly larger premises, giving the Group greater ability to maximise the market opportunity and allowed the opening of a new significant, start-up Hyundai sales outlet servicing Nottingham. This flagship outlet, which opened on 7 March 2011, represents the largest Hyundai showroom in the UK and is a major opportunity. The Group now operates three Hyundai outlets in the UK. This will increase to four on 1 July 2011 when a new start-up Hyundai dealership will open in Peterlee, Co. Durham. The Hyundai franchise continues to expand its product line up, extend its retail market share and grow its vehicle parc, having received a significant boost from the Scrappage Scheme in 2009/10.

The Group continues to assess its franchise portfolio with an aim that it is balanced and reflective of market shares of the wider UK vehicle market. To this end additional franchises will be sought over the medium term to develop this balanced portfolio.

In line with the Group's strategy to enhance margins, the proportion of fleet and commercial new vehicle sales in the dealerships acquired in the last two years (5% of turnover) is significantly lower than for the core like-for-like business (31% of turnover). Fleet and commercial sales typically have a low gross margin percentage. This has resulted in a richer mix of new retail, used and aftersales turnover and a consequential strengthening of gross margins for the enlarged business. As we continue to acquire new dealerships we expect this growth in the retail element of sales mix to progressively increase the return on sales of the Group.

Going forward, the Board will aim to purchase a balance of leasehold and freehold dealerships and as at 28 February 2011 freehold locations accounted for 48% of total Group locations.

Chief Executive's Review (continued)

Operating Review

Dealership Operations

The Group saw enhanced profitability in the year as a result of the contribution from dealerships acquired in the previous year and performance improvements achieved following acquisition. Acquisitions made in the year ended 28 February 2010 contributed £2.4m to the adjusted Group profit before tax of £8.4m. Dealerships acquired in the year lost £1.0m reflecting in part the timing of acquisitions which excluded the peak trading month of March. Significant performance improvements are expected from these dealerships over a three to four year period. The profitability of the core business was flat in the year as the impact of very high used car margins in 2009/10 and the Scrappage Scheme, which ended in May 2010, unwound.

Vehicle Unit Sales Analysis	**2011 Core**	**2011 Acquired***	**2011 Total**	**2010 Total****	**Like-for-Like % Variance**
New Retail	16,136	6,129	22,265	17,468	1.2
Fleet and Commercial	15,979	946	16,925	17,310	(6.1)
Total New	**32,115**	**7,075**	**39,190**	**34,778**	**(2.5)**
Used Retail	28,574	7,743	36,317	28,739	7.1
	60,689	**14,818**	**75,507**	**63,517**	**1.8**

*   Relates to businesses acquired or developed subsequent to 1 March 2010
** 2010 volumes include businesses acquired in the year ended 28 February 2010

Revenue and Margins	**Year ended 28 February 2011**				**Year ended 28 February 2010**			
	Revenue £'m	**Revenue %**	**Gross Margin %**		**Revenue £'m**	**Revenue %**	**Gross Margin %**	
New car retail	291.6	29	7.5		210.1	26	8.5	
New fleet and commercial	258.9	26	2.4		252.4	31	2.4	
Used cars	345.0	35	11.3		269.6	33	12.5	
Aftersales	103.4	10	40.8	***	**86.8**	10	40.9	***
	998.9	**100**	**11.9**		**818.9**	**100**	**12.4**	

***margin in aftersales expressed on internal and external turnover

New retail vehicle volumes rose by 1.2% in the year on a like-for-like basis. This compared to a market decline in the year of 10.5% in UK private new car registrations. The Group gained new car retail market share following the end of the Scrappage Scheme in May 2010. Market share by manufacturer largely reverted back to pre-scrappage patterns which benefitted manufacturers with which the Group has strong representation. In addition, the Group's operations performed well, delivering above national average penetrations of new car sales for our manufacturer partners in the majority of the Group's dealerships. These trends contributed to the outperformance of the market in like-for-like trends and, with acquisitions, to achieving a 2.4% market share of the new retail car market compared to 1.7% in 2010.

Chief Executive's Review (continued)

Operating Review (continued)

Dealership Operations (continued)

Gross margin percentages on new retail sales fell from 8.5% to 7.5% due predominantly to rising sales prices, driven by Euro appreciation, commodity inflation impacting manufacturers and acquisitions. Average selling prices rose by 8.9% in the period. Acquisitions undertaken in the current and previous year generated a gross margin percentage on new cars of 6.8% compared to the core group of 7.7%. This reflects the Group's strategy to drive increased volumes in these dealerships immediately post acquisition to build a greater vehicle parc for aftersales. Over a four year period it is anticipated that new retail margins will trend towards the core business's levels.

New car fleet registrations in the UK rose 8.5% in the year as the market saw replacement cycles recommence following the financing problems which began in 2008/9. In contrast, the Group saw like-for-like car fleet volumes decline by 17.6% due to a reduction in sales to the daily rental sector where the Group has typically been very strong. Manufacturers are increasingly pulling away from this low margin sales channel and, in addition, the Group sought to augment overall profitability by focusing on higher margin fleet supply business.

The Group benefited from an improvement in the market for light and heavy commercial vehicles over the period with like-for-like volumes of commercial vehicles up 12.1%.

The Group's margin percentages in the fleet and commercial sector were flat in the period at 2.4%. These reflected higher margins per unit in the car sector being offset by the impact of rising sales prices and reduced bonus earnings in the commercial sector. In the prior year, significant enhanced bonus earnings opportunities were put in place by manufacturers in order to help clear excess commercial vehicle stocks and to seek to stimulate the very depressed market at that time.

The Group's Iveco operation in the commercial vehicle market benefited from the strong growth in van and truck vehicle sales referred to above. The division has also seen enhanced profitability from used vehicle sales and aftersales as the management changes made in 2009 bear fruit. The Board is pleased to report a significant reduction in losses from £0.7m in 2010 to £0.1m in 2011.

The Group's used car operations performed well in the period. Used vehicle volumes grew 7.1% on a like-for-like basis in a market reported to be flat by Experian. The first half of the period saw margins fall from 13.7% to 10.9% as used car values normalised from the highs of H1 2010 when supply constraints led to exceptionally high margins. The Board is pleased to report that in the second half of the period used car margins rose to 11.8% - higher than in H1 and the prior year comparative of 11.4%. Combined with the volume growth, this strong used car performance reflected continued management focus and enhanced systems developed by the Group to profile and manage used car stocks on a daily basis.

The dealerships acquired in the current and previous financial year 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 9.6% compared to the core business margin of 11.8%. 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.

Chief Executive's Review (continued)

Operating Review (continued)

Dealership Operations (continued)

The Group's aftersales operations comprise servicing, accident repair centres and parts supply. The strategy of the Group is to increase customer retention in the aftersales arena through a number of key strategies. These strategies are summarised below:

- Build an increasing local vehicle parc for aftersales through maximising new and used car sales in the local area.
- Ensure the customer has an outstanding aftersales experience through uniform customer friendly processes. For example, every car serviced receives a free wash and vacuum and free wifi is available in every customer waiting area.
- Contact centres and on-line service bookings make it very convenient to book a service and MOT.
- Service plans which allow customers to budget for services monthly at a discounted rate are increasingly being sold through a centralised contact centre, the internet and dealerships. These plans are crucial in driving long term service retention of new and used cars. This in turn aids parts sales and future car sales.
- Continued investment in training aftersales colleagues to deliver an outstanding and consistent customer experience.

The above initiatives are now bearing fruit and the Group saw like-for-like sales and profit growth in servicing, accident repair and parts supply areas. Overall, like-for-like aftersales revenues and gross profits both rose by £1.5m in the year. Growth was witnessed in each area of servicing, accident repair and parts supply. Efficiency levels were improved and cost control maintained during the period and these both contributed to the strong profit growth. These positive organic trends in the business were achieved despite a decline in the vehicle parc less than five years old, which traditionally has formed the bedrock of the franchised dealer's service business and a decline in reported accidents, which form the basis of demand in the accident repair sector.

Robert Forrester
Chief Executive

Finance Director's Review

Profit and Loss

Revenue in the period increased by £180m to £998.9m (2010 : £818.9m) with acquisitions in the year contributing £53.2m of additional revenue. Like-for-like revenue of the continuing operations rose by £37.4m.

Gross profit margin strengthened from 11.5% in the first half of the year to 12.3% in the second half, driven by improving performance. For the same period, in the key used car and aftersales areas, margins strengthened from 10.9% to 11.8% and from 39.7% to 41.9% respectively. For the full year, overall gross margins declined from 12.4% to 11.9%. The decline was predominantly driven by the reversal of very high used car margins driven by supply constraints in the prior year and by rising new vehicle sales prices.

For continuing operations, operating expenses reduced as a percentage of sales to 10.8% (2010 : 11.5%) as Group initiatives on cost control have been driven relentlessly. The Group generated operating profit before amortisation, share based payments charge and exceptional costs of £8.7m (2010 : £7.6m).

In the second half of the year the Group saw an increase in the level of interest shown by property developers in the three properties held for resale at 1 March 2010. In addition, as a result of internal portfolio developments, three other Group freehold properties have now been added to properties held for resale. The Board has re-assessed the carrying values of the six properties which are now classified as assets held for resale, and this has resulted in a non-cash impairment cost of £1.5m. Having recognised this exceptional cost, the net book value of these assets now stands at £6.6m.

Following the refinancing of the Group's loan facilities during the second half of the year, the financial instruments used to hedge interest rates on the old facilities have been cancelled and new hedging undertaken. The new arrangements will significantly reduce interest costs over the next five years.

The cancellation of the old hedging arrangements has resulted in the recycling of a charge of £0.5m previously held in the Group hedging reserve, into the Income Statement. Along with £0.1m of loan arrangement fees previously deferred, relating to the old loan arrangements, these costs have been shown as exceptional charges in the Income Statement.

In addition, £0.5m of reorganisation and closure costs related to new acquisitions, portfolio restructuring and the cost reduction programme, have been treated as exceptional costs.

Net finance costs in the period have reduced to £0.4m (2010 : £0.7m) due to higher vehicle stocking interest income and lower interest paid on bank borrowings following the restructuring of the interest rate hedging arrangements.

Taxation

The effective tax rate of 23% is lower than the headline UK Corporation Tax rate of 28% due primarily to deferred tax adjustments arising from the Group's property portfolio and from the reduction in the headline rate for the forthcoming year. These differences are expected to recur in future years, hence the effective and sustainable rate of tax of the Group going forward is expected to be no higher than 23%.

Financial Position

The Group has a strong balance sheet with shareholders' funds of £97.5m (2010 : £90.5m), representing net assets per share of 48.9p (2010 : 45.8p). Tangible net assets per share were 40.1p (2010 : 37.3p). The balance sheet is underpinned by a freehold and long leasehold property portfolio (including properties held for resale) of £72.8m (2010 : £66.2m).

The Group finances its operations by a mixture of shareholders' equity, bank borrowings and trade credit from suppliers and manufacturer partners. In October 2010 the Group established new loan facilities comprising a five year loan of £10m repayable in instalments beginning in January 2012, and a three year acquisition facility of £15m. Interest is payable on these facilities at LIBOR plus 2.25% and LIBOR plus 1.85% respectively. As at 28 February 2011, the Group had drawn down £10.0m from the five year facility (2010 : £10.8m) and the acquisition facility was undrawn. 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 (an increase of £5m from 2010) on which it paid interest on drawn amounts at 2% above base rate and 1.75% above LIBOR respectively during the year. The facilities are available until the next review date of 30 April 2012. 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 28 February 2011, the Group had cash balances of £23.4 m (2010 : £34.3m) and as a consequence net cash of £13.6m (2010 : net cash of £23.5m). The positive net cash balance at 28 February 2011 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 new acquisition loan facility, will be used to fund the Group's on-going acquisition strategy.

Cash Flows

The Group's cash generated from operating activities was £12.0m (2010: £15.8m) demonstrating continued strong conversion of profits into cash.

Acquisitions and freehold property purchases absorbed cash of £14.6m during the year. Of this amount, £8.0m related to the purchase of freehold and long leasehold properties. The Group invested a further £4.3m in capital expenditure related to property refurbishments and developments to enhance retail environments and increase the productive capacity of the Group.

Finance Director's Review (continued)

Pensions

During the year, and in line with the funding programme agreed with the Trustees in 2010, the Group made cash contributions to the Bristol Street defined benefit pension scheme of £0.4m (2010 : £1.1m). This scheme is closed to future membership and accrual. In the period, the Group net assets have been increased by £2.8m as a result of the increase in the present value of the scheme assets and the decline of the fair value of the scheme's funded obligations in the period. The present value of the scheme's obligations takes account of an actuarial gain of £1.8m arising as a result of utilising CPI instead of RPI to calculate certain elements of statutory pension indexation. As at 28 February 2011, a gross asset in respect of retirement benefits has been recognised of £2.3m (2010 : liability of £0.5m).

Post balance sheet events

On 18 April 2011 the Group acquired a SEAT dealership in Barnsley, Yorkshire, for an estimated consideration of £0.9m including a freehold property, taking the number of SEAT dealerships operated by the Group to three.

On 11 May 2011, Panmure Gordon & Co. were appointed as nomad and sole broker and financial advisor to the Group.

Michael Sherwin
Finance Director

Main Board Directors

The Board currently comprises the Directors outlined below.

Paul Williams – Non-Executive Chairman

Paul (64) was Chief Executive of Bristol Street Group Limited until its acquisition by Vertu Motors plc. Paul has over thirty years of retail experience and is well respected in the motor retail sector. This is reflected in his role as a Director of the Retail Motor Industry Federation (RMIF).

William Teasdale – Non-Executive Director

Bill (68) is a non-executive Director of a number of private companies including British Engines Limited, Astrum Limited and Bedmax Limited in addition to being a Governor of Northumbria University. 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 LLP. Bill has substantial experience of corporate transactions within the quoted company environment.

David Forbes – Non-Executive Director

David (51) was a Managing Director at Rothschild until 2010, where he developed his career over the last 22 years. He qualified as a Chartered Accountant in 1984 and since then has worked for a number of organisations in corporate finance roles. His areas of expertise include mergers and acquisitions, corporate strategy and corporate finance, involving both debt and equity. David is also Chairman of Northern Ballet.

Robert Forrester – Chief Executive

Robert (41) was a Director of Reg Vardy plc between 2001 and 2006, appointed as Finance Director in 2001 and Managing Director in 2005, until the sale of the business to Pendragon plc in 2006. 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.

Michael Sherwin – Finance Director

Michael (52) 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.

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Corporate and Social Responsibility Report

1. Introduction

Corporate and Social Responsibility ("CSR") is at the very core of our Group's culture and values. 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. As part of our CSR strategy the Group has an active strategy to support a number of charitable and community initiatives.

2. Health and Safety and Environment

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 to our 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.

We continue to be committed to the care and protection of our colleagues and the local environments close to our operational businesses. Our responsibilities are carried out in the following ways:

- **Acquisitions:**

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. In addition, Health and Safety compliance and processes are considered. Appropriate warranties and indemnities are then sought from vendors.

- **Environmental 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:

  - Substances that may be hazardous to health are logged and recorded on sites together with written assessments of precautions necessary while in use.
  - Waste from sites is disposed 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.
  - Water based paints are used by our bodyshops and the Group does not use paints containing isocyanates.
  - Paint spray booths are examined and serviced annually with filters being replaced at the manufacturer recommended intervals.
  - 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.

Corporate and Social Responsibility Report (continued)

Health and Safety and Environment (continued)

- **Energy Management and Reduction:**

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 and in the summer 2011 we will be submitting our Evidence pack. Vertu Motors plc is committed to energy usage reduction and we have been actively monitoring and managing our energy usage since 2008. All sites are fitted with Automatic Meter Readers (AMRs) and we monitor usage in half hourly segments across our business. All General Managers within our business receive energy management/ reduction training and have access to on-going support as we continue to target usage savings across our businesses. This focus has helped us save 10% usage per annum for the past two years and we will continue to target 10% usage savings each year.

- **Health Screening and Monitoring:**

Annual and bi-annual screening and monitoring of colleagues working within workshop and bodyshop environments takes place.

- **BS; Kitemark Accident Repair Centres:**

The Group welcomed the industry initiative to raise standards across the accident repair industry and was one of the first franchised dealer groups to achieve 100% BSI Kitemark accreditation.

- **Sourcing Policies:**

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/ 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. We want every colleague to enjoy coming to work, feel motivated in everything that they do and to take pride in their contributions to the Group. As the Group expands, the enthusiasm and dedication of our people 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**
  - **Passion**

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

  - **Respect**

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

  - **Professionalism**

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

  - **Integrity**

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

3. Colleagues (continued)

- **Values (continued)**

  - **Recognition**

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

  - **Opportunity**

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

  - **Commitment**

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

- **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:

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

All appointments are made solely on the basis of a person's suitability for a particular post and without reference to gender, age, ethnic origin, religion or (except where it directly affects safety or job performance) disability. The principle of equality also applies to career development opportunities and training and to our operations, human resources practices and management processes.

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.

- **Sharing our Success**

The Group pays attractive salaries and additional benefits to dedicated people. Every colleague is offered entry into either the Group's pension scheme with free Life Assurance or its Stakeholder 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, so that the views of colleagues can be taken into account when making decisions that are likely to affect their interests.

Whilst individual achievement is always recognised, good teamwork is at the core of how we operate our business. At the heart of this is good communication. Every colleague has a stake in the business and we want everyone to feel that their voice can be heard. 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.

In 2009 the Group launched its Annual Chief Executive's Awards programme, which gives special recognition to managers who have excelled in their fields.

4. Vertu in the Community

As the Group grows, we are expanding the scope of our involvement in the Community as part of our wider corporate and social responsibility strategy. The projects the Group has chosen to support reflect the diversity and depth within our businesses and our desire to be an active part of the communities we serve.

Charity Support and Partnership

- **BEN**

BEN (Motor and Allied Trades Benevolent Fund) is the automotive industry charity, providing care and support to employees and their dependants in times of need. BEN offer practical, emotional and financial support to anyone who works or has worked in the automotive industry, as well as their dependents. BEN are currently providing assistance to more than 15,000 people for a wide range of issues and have actively helped current and former colleagues of the Group and their dependants.

In the year to 28 February 2011 we donated £19,000 to BEN via our annual support programme.

Vertu is proud to be a partner of BEN and as well as running an annual formal support programme for BEN, we also encourage our colleagues to support BEN via monthly payroll giving and have a number of BEN Gold supporters within the Group.

- **Children in Need**

Our relationship with Children in Need grew considerably in 2010. Children in Need remains a very popular charity with our colleagues and we raised £40,000 via group wide fundraising events on and around Children in Need day. Many of our colleagues and dealerships excelled themselves dressing up in an array of fancy dress outfits and organising themed days within the dealerships with activities for both our colleagues and our customers.

Corporate and Social Responsibility Report (continued)

4. Vertu in the Community (continued)

- **Dunston Silver Band**

The Group is proud to support Dunston Silver Band. This brass band is based in the town of Dunston close to the Group's support centre in Gateshead in the North East of England. The band is open to all age ranges, abilities and backgrounds. The band regularly travels to take part in regional and national band competitions such as the National Mineworker's Open Championship, and The North of England Regional Championships.

Dunston Silver Band, originally known as Dunston Temperance Band, has a colourful history which can be traced back as early as 1902. Sometime between 1902 and 1913 the band changed its name to Dunston Silver Band. In 1913 the Band performed at the world famous Crystal Palace. The Group supports this band as part of its commitment to the North East of England and its communities and allows the band to undertake a wide range of activity to promote and encourage music in the area.

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 28 February 2011.

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 volumes by channel, gross profit per unit and in the aftersales arena, measures such as workshop efficiency, billing and recovery rates.

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.

- **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, production and distribution capabilities or reputation of any of our manufacturer partners may impact results.

- **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.

- **Reliance on Certain Key Members of Staff 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 personnel could impact on both performance and the ability to expand.

- **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.

- **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.

Principal Risks and Uncertainties (continued)

- **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 after-sales 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 satisfaction 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 37. The Group's profit on ordinary activities after taxation for the year was £4,024,000 (2010: £3,782,000).

The dividend paid in the year to 28 February 2011 was £399,000 (0.2p per share). A final dividend in respect of the year ended 28 February 2011 of 0.3p per share, is to be proposed at the annual general meeting on 21 July 2011. The ex dividend date will be 18 May 2011 and the associated record date 20 May 2011. These financial statements do not reflect this 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 28 February 2011 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

The Directors retiring at the Annual General Meeting are R T Forrester and P R Williams. Each retiring Director, being eligible, offers themselves for re-election.

The Directors who held office at 28 February 2011 and their connected persons had interests in the issued share capital of the Company as at 28 February 2011 as follows:

	28 February 2011 Ordinary Shares	**28 February 2010 Ordinary Shares**
P R Williams	2,827,485	2,827,485
R T Forrester	5,862,812	5,419,247
M Sherwin	136,356	119,000
D M Forbes	200,000	-
W M Teasdale	533,850	500,000

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

Directors' Report (continued)

Directors and Their Interests (continued)

R T Forrester and W M Teasdale who, together with their connected persons, control 3.2 per cent of the issued share capital of the Company, have undertaken to ensure that any disposal made by them (or as far as they are able, their connected persons) of any Ordinary Shares for a period of two years from 23 December 2009 will be made in a manner designed to ensure that an orderly market can be maintained.

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. At 28 February 2010 the Group held interest rate hedges over a greater value than its outstanding debt. Therefore, on 16 March 2010 the Group cancelled an interest rate swap over £5m of debt, leaving swap arrangements in place over a principal amount of £10m, effectively removing this over hedged position. Following completion of its refinancing on 15 October 2010 the financial instruments used to hedge interest rates on the old facilities were cancelled on 29 November 2010 and new hedging arrangements undertaken. The new arrangements will significantly reduce interest costs over the next five years. The costs associated with this cancellation have been treated as exceptional.

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 19. The Group made charitable contributions totalling £39,000 (2010: £14,000), consisting of £19,000 to BEN (Motor and Allied Trades Benevolent Fund) and £20,000 to Children in Need.

Events after the balance sheet date

On 18 April 2011 the Group acquired a SEAT dealership in Barnsley, Yorkshire, for an estimated consideration of £0.9m including a freehold property, taking the number of SEAT dealerships operated by the Group to three.

On 11 May 2011, Panmure Gordon & Co. were appointed as nomad and sole broker and financial advisor to the Group.

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 19.

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 retail 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 28 February 2011 were equivalent to 47 days (2010: 51 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 Group and 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). 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

Karen Anderson
Company Secretary
11 May 2011

Corporate Governance Report

The Combined Code

As an AIM listed Company, Vertu Motors plc does not have to comply with the Combined Code on Corporate Governance (the 'Combined Code 2008') 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 Section 1 of the Combined Code 2008 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 five members comprising two executive Directors (R T Forrester and M Sherwin) and three non-executive Directors (P R Williams, W M Teasdale and D M Forbes). It is the Board's intention that, in the medium term, at least one half of the Board (excluding the Chairman) should comprise independent non-executive Directors. After carefully reviewing the guidance in the Combined Code, the Board believes P R Williams, W M Teasdale and D M Forbes 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 six 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 9 times in person and on other occasions by telephone. The number of meetings attended by each Director was as follows:

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	9	2	3	-
P R Williams	8	1	3	-
R T Forrester	9	-	-	-
W M Teasdale	8	2	3	-
D M Forbes	9	1	3	-
M Sherwin	9	1	-	-

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.

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. R T Forrester and P R Williams are to retire and submit themselves for re-election by rotation at the 2011 Annual General Meeting.

Board of Directors (continued)

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.

The performance of the Board is evaluated periodically by a formal and rigorous process. Each Director completes a questionnaire. The results are fed back to the Chairman and then to the Board for discussion. These discussions are used to identify actions to improve effectiveness and also to identify individual and collective training needs.

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 the three non-executive Directors (W M Teasdale as Chairman, P R Williams 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 three non-executive Directors (W M Teasdale as Chairman, P R Williams and D M Forbes). 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 Combined Code 2008 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 three non-executive Directors (W M Teasdale as Chairman, P R Williams and D M Forbes). The Committee did not meet in in the last financial year. The Committee is responsible for selecting candidates who are to be nominated to the Board for executive and non-executive 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 executive and non-executive 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. Institutional shareholders are regularly invited to visit the operations and a number have taken up this opportunity. 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 Combined Code 2008, 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.

Internal Controls (continued)

- Audit Committee

  The Audit Committee meets with the executive Directors, and by invitation, the Group's Independent Auditors 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 Manager to monitor performance at dealership and franchise levels against planned and prior year comparatives. In addition, assets and liabilities are scrutinised at several levels on a regular basis and remedial action taken where required. 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.

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.

Going concern (continued)

The projections assume that profits earned from new and used car sales will remain stable throughout 2011/12; the service and parts business will continue to show growth; UK interest rates will rise in the second half of the year; 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 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
11 May 2011

Remuneration Report

The Board presents the Remuneration Report for the year ended 28 February 2011.

Remuneration Committee

The Remuneration Committee comprises the three non-executive Directors, P R Williams, W M Teasdale and D M Forbes, 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 locale 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 2010 to 28 February 2011 for the two executive Directors were £150,000 for the Chief Executive R T Forrester and £125,000 for Finance Director M Sherwin. When assessing basic salaries for 2011/12, the Remuneration Committee have fully considered the comparative information available, the levels of pay elsewhere in the Group and the responsibilities of the Company's executive Directors, having regard to their respective roles. The basic salary of R T Forrester will be £200,000 for 2011/12 and the basic salary of Michael Sherwin will be £150,000.

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 significant value has been delivered to shareholders. 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 28 February 2011 was 150% of basic salary for R T Forrester and 125% of basic salary for M Sherwin.

For the 2011/12 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 consensus profit forecasts by leading analysts at the commencement of the financial year adjusted for the impact of acquisitions and disposals. The profit forecast (profit before taxation) as at 1 March 2011 was £9.0m.

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 32 to 33. 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 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.

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.

Remuneration Report (continued)

Service Contracts (continued)

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

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

Options under this Scheme 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.

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.

c) Parallel Options

On 20 August, 27 August and 29 October 2009 'parallel' options were granted as the performance criteria attached to existing 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

Policy on Performance Criteria (continued)

c) Parallel Options (continued)

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 than 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 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
	275	**150**	**28**	**301**	**754**

The remuneration of the Directors who served during the year from 1 March 2009 to 28 February 2010 is as follows:

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	150	-	11	183*	344
K Anderson	98	-	12	110*	220
M Sherwin	1	-	-	-	1
D M Forbes	-	18	-	-	18
P R Williams	-	70	1	-	71
W M Teasdale	-	40	-	-	40
	249	**128**	**24**	**293**	**694**

*Included within the remuneration tables above are performance bonuses of £Nil (2010: £293,000), paid into trusts (the beneficiaries of which are key management) rather than to the employees themselves. Nevertheless, these sums still constitute short-term employee benefits and are therefore included as remuneration.

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

Directors' Pension Entitlements

The Company has paid £25,000 (2010: £25,000) in contributions to the defined contribution Bristol Street Pension Scheme during this financial year in respect of R T Forrester and £21,000 (2010: £Nil) in respect of M Sherwin.

Remuneration Report (continued)

Directors' Share Incentives

The following share options over the ordinary share capital of the Company were granted to M Sherwin on 19 May 2010.

	Date of Grant	Exercise Price (Pence)	Exercisable from	Expiry date	Number of Share Options
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 28 February 2011 was 27.5p (28 February 2010: 38p) and the range during the financial year was 25.3p to 39.0p (2010: 15.5p to 49.0p).

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
11 May 2011

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 28 February 2011, 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.

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 28 February 2011 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 28 February 2011.

Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
11 May 2011

Consolidated Income Statement

For the year ended 28 February 2011

	Note	2011 £'000	2010 £'000
Revenue			
Continuing operations		945,739	818,922
Acquisitions		53,187	-
		998,926	**818,922**
Cost of sales			
Continuing operations		(833,458)	(717,476)
Acquisitions		(46,636)	-
		(880,094)	**(717,476)**
Gross profit			
Continuing operations		112,281	101,446
Acquisitions		6,551	-
		118,832	**101,446**
Operating expenses			
Continuing operations		(102,576)	(93,894)
Acquisitions		(7,514)	-
	6	**(110,090)**	**(93,894)**
Operating profit before amortisation, share based payments charge and exceptional charges			
Continuing operations		9,705	7,552
Acquisitions		(963)	-
		8,742	**7,552**
Amortisation of intangible assets		(274)	(209)
Share based payments charge		(81)	(119)
Exceptional charges	8	(2,100)	(1,404)
Operating profit		**6,287**	**5,820**
Finance income	11	2,089	1,736
Finance costs	11	(2,462)	(2,432)
Exceptional recycling of cash flow hedge reserve	8	-	(498)
Exceptional termination of interest rate contract	8	(544)	-
Exceptional write off of loan arrangement fees	8	(119)	-
Profit before tax, amortisation, share based payments charge and total exceptional charges		8,369	6,856
Amortisation of intangible assets		(274)	(209)
Share based payments charge		(81)	(119)
Total exceptional charges	8	(2,763)	(1,902)
Profit before tax		**5,251**	**4,626**
Taxation	12	(1,227)	(844)
Profit for the year attributable to equity holders		**4,024**	**3,782**
Basic earnings per share (p)	13	**2.02**	**2.23**
Diluted earnings per share (p)	13	**2.02**	**2.23**
Adjusted earnings per share (p)	13	**3.23**	**3.20**

Consolidated Statement of Comprehensive Income

For the year ended 28 February 2011

	Note	2011 £'000	2010 £'000
Profit for the year		**4,024**	**3,782**
Other comprehensive income			
Actuarial gains (losses) on retirement benefit obligations	29	2,572	(1,902)
Deferred tax relating to actuarial gains (losses) on retirement benefit obligations	29	(693)	532
Cash flow hedges	31	81	-
Deferred tax relating to cash flow hedges	31	(22)	-
Recycling of cash flow hedge reserve to the income statement	31	933	498
Deferred tax on recycling of cash flow hedge reserve	31	(261)	(138)
Other comprehensive income for the year, net of tax		**2,610**	**(1,010)**
Total comprehensive income for the year attributable to equity holders		**6,634**	**2,772**

Consolidated Balance Sheet

As at 28 February 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Goodwill	15	20,509	20,110
Other intangible assets	16	1,060	963
Retirement benefit asset	29	2,295	-
Property, plant and equipment	18	74,063	67,029
		97,927	**88,102**
Current assets			
Inventories	20	191,656	166,309
Property assets held for sale	21	6,630	4,900
Trade and other receivables	22	28,828	22,078
Cash and cash equivalents	23	23,442	34,347
Total current assets		**250,556**	**227,634**
Non-current assets			
Derivative financial instruments	26	81	-
Total assets		**348,564**	**315,736**
Current liabilities			
Trade and other payables	24	(229,156)	(201,899)
Current tax liabilities		(3,937)	(3,804)
Deferred consideration		-	(664)
Borrowings	25	(500)	(168)
Total current liabilities		**(233,593)**	**(206,535)**
Non-current liabilities			
Borrowings	25	(9,303)	(10,655)
Derivative financial instruments	26	-	(1,434)
Deferred income tax liabilities	27	(4,016)	(3,541)
Retirement benefit liability	29	-	(495)
Provisions for other liabilities	28	(4,150)	(2,554)
		(17,469)	**(18,679)**
Total liabilities		**(251,062)**	**(225,214)**
Net assets		**97,502**	**90,522**
Capital and reserves attributable to equity holders of the Group			
Ordinary shares	30	19,928	19,756
Share premium	30	60,506	60,506
Other reserve	30	8,820	8,328
Hedging reserve	31	59	(672)
Retained earnings		8,189	2,604
Shareholders' equity		**97,502**	**90,522**

These financial statements have been approved for issue by the Board of Directors on 11 May 2011:

Robert Forrester
Chief Executive

Michael Sherwin
Finance Director

Consolidated Cash Flow Statement

For the year ended 28 February 2011

	Note	2011 £'000	2010 £'000
Operating profit		6,287	5,820
Loss on sale of property, plant and equipment	6	171	12
Loss on sale of properties held for resale		-	1,304
Amortisation of other intangible assets	16	274	209
Depreciation of property, plant and equipment	18	3,389	2,945
(Increase) decrease in inventories		(5,852)	4,831
Increase in trade and other receivables		(1,479)	(2,668)
Impairment of assets held for sale		1,508	100
Increase in payables		6,028	2,021
Increase in provisions		1,595	1,121
Share based payments charge		81	119
Cash generated from operations		**12,002**	**15,814**
Tax received		311	379
Tax paid		(1,742)	(459)
Payment to terminate interest rate swap		(1,041)	-
Finance income received		711	99
Finance costs paid		(577)	(935)
Net cash generated from operating activities		**9,664**	**14,898**
Cash flows from investing activities			
Acquisition of businesses, net of cash, overdrafts and borrowings acquired	17	(11,977)	(12,023)
Acquisition of freehold land and buildings		(2,604)	(5,950)
Purchases of intangible fixed assets	16	(371)	(129)
Purchases of property, plant and equipment	18	(4,331)	(3,360)
Proceeds from disposal of property, plant and equipment		54	895
Proceeds from disposal of property assets held for sale		-	3,839
Net cash outflow from investing activities		**(19,229)**	**(16,728)**
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		-	29,947
Repayment of borrowings	32	(10,941)	(6,677)
Proceeds from borrowings		10,000	-
Dividends paid to Company shareholders		(399)	-
Net cash (outflow) inflow from financing activities		**(1,340)**	**23,270**
Net (decrease) increase in cash and cash equivalents	**32**	**(10,905)**	**21,440**
Cash and cash equivalents at beginning of year		34,347	12,907
Cash and cash equivalents at end of year	**23**	**23,442**	**34,347**

Consolidated Statement of Changes in Equity

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 (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 26)	-	-	-	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**

For the year ended 28 February 2010

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2009	**9,198**	**40,991**	**7,969**	**(1,032)**	**73**	**57,199**
Profit for the year	-	-	-	-	3,782	3,782
Actuarial losses on retirement benefit obligations (note 29)	-	-	-	-	(1,902)	(1,902)
Tax on items taken directly to equity (note 27)	-	-	-	(138)	532	394
Recycling of cash flow hedge reserve (note 31)	-	-	-	498	-	498
Total comprehensive income for the year	-	-	-	360	2,412	2,772
Share based payments charge	-	-	-	-	119	119
New ordinary shares issued	10,558	20,864	359	-	-	31,781
Costs associated with issuance of ordinary shares	-	(1,349)	-	-	-	(1,349)
As at 28 February 2010	**19,756**	**60,506**	**8,328**	**(672)**	**2,604**	**90,522**

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 (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 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.

Standards and interpretations adopted by the Group in the year ended 28 February 2011

- IFRS 3 (revised) – Business combinations (accounting periods beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

- IAS 27 (revised) – Consolidated and separate financial statements' (accounting periods beginning on or after 1 July 2009), requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the current period, as there have been no transactions with non-controlling interests.

New and amended standards and interpretations effective in the year ended 28 February 2011 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- IFRIC 17 – Distribution of non-cash assets to owners' (accounting periods beginning on or after 1 July 2009). This interpretation provides guidance on accounting whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 18 – Transfers of assets from customers (accounting periods beginning on or after 1 July 2009). The interpretation clarifies the requirements of IFRSs for agreements in which an entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

1. Accounting Policies (continued)

- IFRIC 9 – Reassessment of embedded derivatives and IAS 39 Financial instruments – Recognition and measurement (accounting periods beginning on or after 1 July 2009). This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment that is to be made is based upon circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit and loss in its entirety.
- IFRIC 16 – Hedges of a net investment in a foreign operation (accounting periods beginning on or after 1 July 2009). This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.
- IAS 1 (amendment) – Presentation of financial statements. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.
- IAS 32 (amendment) - Classification of rights issues' (accounting periods beginning on or after 1 February 2010). The amendment clarifies that rights, options, or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments.
- IFRS 2 (amendments) – Group cash-settled share based payment transactions' (accounting periods beginning on or after 1 January 2010). In addition to incorporating IFRIC 8, 'Scope of IFRS 2' and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.
- IAS 39 (amendments) – Financial instruments: Recognition and measurement, on 'Eligible hedged items' (accounting periods beginning on or after 1 July 2009). This amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges.
- IFRIC 12 – Service concession arrangements' (accounting periods on or after April 2009). This interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services – for example, under private finance initiative contracts (PFI) contracts. Under these arrangements, assets are assessed as either intangible assets or finance receivables.

1. Accounting Policies (continued)

- IFRIC 15 – Arrangements for construction of real estates' (accounting periods on or after 1 January 2009; EU-endorsed for use 1 January 2010). This interpretation clarifies which standard (IAS 18, 'Revenue', or IAS 11, 'Construction contracts') should be applied to particular transactions. It is likely to mean that IAS 18 will be applied to a wider range of transactions.
- IFRS 5 (amendment) – Non-current assets held for resale and discontinued operations. The amendment provides classification that IFRS 5 specifies the disclosures that are required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

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 2013, not yet endorsed by EU).
- IAS 24 (amendment) 'Related party disclosures' (accounting periods on or after 1 January 2011).
- IFRIC 19 'Extinguishing financial liabilities with equity instruments' (accounting periods on or after 1 July 2010).
- IFRIC 14 (amendment) 'Prepayments of a minimum funding requirement' (accounting periods on or after 1 January 2011.)

The directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

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 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.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Business combinations and goodwill (continued)

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.

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 pre-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.

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 costs

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.

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 expense.

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 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 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 expense.

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.

On 16 March 2010, a £5m interest rate swap with a notional value of £5m was cancelled. Furthermore, on 29 November 2010, the remaining interest rate swap was also cancelled. A new 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.

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

	Less than one year £'000	**Between two and five years £'000**	**Total £'000**
Bank borrowings	730	11,264	11,994
Derivative financial instruments	-	1,434	1,434
Trade and other payables (excluding social security and other taxes)	199,999	-	199,999
At 28 February 2010	**200,729**	**12,698**	**213,427**

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 gearing ratios at 28 February 2011 and 28 February 2010 were as follows:

	2011 £'000	2010 £'000
Total borrowings (note 25)	9,803	10,823
Less: cash and cash equivalents (note 23)	(23,442)	(34,347)
Net cash	**(13,639)**	**(23,524)**
Shareholders' equity	**97,502**	**90,522**
Gearing ratio	**N/A**	**N/A**

Fair value estimation

Interest rate swaps 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.

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

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 is recognised in the balance sheet and represent the present value of the obligation 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 28 February 2011 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.

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 included below an additional voluntary disclosure analysing revenue and gross profit within the reportable segment.

	2011 Revenue £'m	2011 Revenue %	2011 Gross Margin %	2010 Revenue £'m	2010 Revenue %	2010 Gross Margin %
New car retail	291.6	29	7.5	210.1	26	8.5
New fleet and commercial	258.9	26	2.4	252.4	31	2.4
Used cars	345.0	35	11.3	269.6	33	12.5
Aftersales	103.4	10	40.8*	86.8	10	40.9*
	998.9	**100**	**11.9**	**818.9**	**100**	**12.4**

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

6. Operating expenses

	2011 £'000	2010 £'000
Wages and salaries excluding share based payments costs (note 9)	61,934	54,199
Depreciation on property, plant and equipment (note 18)	3,389	2,945
Loss on disposal of property, plant and equipment	171	12
Operating lease rentals – property	4,711	3,993
Operating lease rentals – plant and equipment	186	192
Operating lease rentals – vehicles	1,737	1,417
Auditors' remuneration (note 7)	199	209
Other expenses	37,763	30,927
	110,090	**93,894**

7. Auditors' remuneration

	2011 £'000	2010 £'000
Fees payable to the Company's auditors' for the audit of the parent Company and consolidated financial statements	159	150
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	29
	199	**209**

8. Exceptional costs

	2011 £'000	2010 £'000
Loss on sale of properties	-	1,304
Impairment of assets held for resale	1,508	100
Reorganisation and closure costs	592	-
	2,100	**1,404**
Recycling of cash flow hedge reserve	544	498
Loan arrangement fees written off	119	-
	2,763	**1,902**

Following the refinancing of the Group's loan facilities during the second half of the year, the financial instruments used to hedge interest rates on the old facilities have been cancelled and new hedging undertaken. The new arrangements will significantly reduce interest costs over the next five years. Certain costs relating to both the refinancing, totalling £119,000, and the cancellation of the old hedging arrangements, an amount of £544,000, have been treated as exceptional costs.

At 1 March 2010 the Group held three freehold properties for resale. In addition, as a result of internal portfolio development, three other Group freehold properties have now been added to the properties held for resale. The Board has re-assessed the carrying values of the six freehold properties held for resale and this has resulted in a non-cash impairment cost of £1.5m.

8. Exceptional costs (continued)

Finally, as a result of the acquisition growth of the Group during the financial year, the Group has sought to reorganise the human resources at each acquired outlet to ensure that each business purchased is 'right sized'. Reorganisation costs of £592,000, which have arisen as a consequence of this restructuring, are included within exceptional costs.

9. Employee benefit expense

	2011 £'000	2010 £'000
Wages and salaries	56,437	49,403
Social security costs	4,642	4,063
Pension costs – defined contribution plans	855	733
	61,934	**54,199**
Share based payments costs (note 31)	81	119
	62,015	**54,318**

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
	275	**150**	**28**	**301**	**754**

The remuneration of the Directors who served during the year from 1 March 2009 to 28 February 2010 is as follows:

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	150	-	11	183*	344
K Anderson	98	-	12	110*	220
M Sherwin	1	-	-	-	1
D M Forbes	-	18	-	-	18
P R Williams	-	70	1	-	71
W M Teasdale	-	40	-	-	40
	249	**128**	**24**	**293**	**694**

*Included within the remuneration tables above are performance bonuses of £Nil (2010: £293,000), paid into trusts (the beneficiaries of which are key management) rather than to the employees themselves. Nevertheless, these sums still constitute short-term employee benefits and are therefore included as remuneration.

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

The Company has paid £25,000 (2010: £25,000) in contributions to the defined contribution Bristol Street Pension Scheme during this financial year in respect of R T Forrester and £21,000 (2010: £Nil) in respect of M Sherwin.

The Remuneration Report on pages 30 to 34 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 2011	Number 2010
Sales and distribution	960	798
Service, parts and accident repair centres	1,075	943
Administration	554	496
	2,589	**2,237**

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

	Number 2011	Number 2010
Sales and distribution	1,019	843
Service, parts and accident repair centres	1,092	974
Administration	577	535
	2,688	**2,352**

11. Finance income and costs

	2011 £'000	2010 £'000
Interest on short term bank deposits	82	122
Vehicle stocking interest	650	493
Other finance income relating to Group pension scheme (note 29)	1,357	1,121
Finance income	**2,089**	**1,736**
Bank loans and overdrafts	(658)	(1,054)
Recycling of cash flow hedge reserve	(224)	-
Other finance costs relating to Group pension scheme (note 29)	(1,567)	(1,365)
Other finance costs	(13)	(13)
Finance costs	**(2,462)**	**(2,432)**

12. Taxation

	2011 £'000	2010 £'000
Current tax		
Current tax charge	1,572	1,620
Adjustment in respect of prior years	155	(295)
Total current tax	**1,727**	**1,325**
Deferred tax (note 27)		
Origination and reversal of temporary differences	(221)	(393)
Adjustment in respect of prior years	(160)	(88)
Rate differences	(119)	-
Total deferred tax	**(500)**	**(481)**
Income tax expense	**1,227**	**844**

12. Taxation (continued)

Comprising:		
Taxation – excluding exceptional items	2,001	1,377
Taxation – exceptional items	(774)	(533)
	1,227	**844**

Factors affecting taxation expense in the year

	2011 £'000	2010 £'000
Profit before taxation and exceptional items	8,014	6,528
Exceptional costs	(2,763)	(1,902)
Profit before taxation from continuing operations	**5,251**	**4,626**
Profit before taxation multiplied by the rate of corporation tax in the UK of 28%	1,470	1,295
Non-deductible amortisation	77	59
Non-deductible expenses	164	120
Effect on deferred tax balances due to rate change	(119)	-
Small companies rate	(6)	(5)
Property adjustment for indexation	(271)	(242)
Permanent benefits	(83)	-
Adjustments in respect of prior years	(5)	(383)
Total tax expense included in the income statement	**1,227**	**844**

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.

13. Earnings per share (continued)

	2011 £'000	2010 £'000
Profit attributable to equity shareholders	4,024	3,782
Amortisation of intangible assets	274	209
Share based payments charge	81	119
Exceptional charges	2,763	1,902
Tax effect of adjustments	(711)	(591)
Adjusted earnings attributable to equity shareholders	**6,431**	**5,421**
Weighted average number of shares in issue ('000s)	198,901	169,224
Potentially dilutive shares ('000s)	-	-
Diluted weighted average number of shares in issue ('000s)	**198,901**	**169,224**
Basic earnings per share	**2.02p**	**2.23p**
Diluted earnings per share	**2.02p**	**2.23p**
Adjusted earnings per share	**3.23p**	**3.20p**
Diluted adjusted earnings per share	**3.23p**	**3.20p**

14. Dividends per share

The dividend paid in the year to 28 February 2011 was 0.2p per share (2010 Nil). A final dividend in respect of the year ended 28 February 2011 of 0.3p per share, amounting to a total dividend of £598,000 is to be proposed at the annual general meeting on 21 July 2011. These financial statements do not reflect this dividend payable.

15. Goodwill

	2011 £'000	2010 £'000
Cost and net book value		
At beginning of year	20,110	18,612
Additions (Note 17)	399	1,498
At end of year	**20,509**	**20,110**

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 28 February 2011 and 28 February 2010, the acquired goodwill was tested for impairment, with no goodwill impairment charge deemed necessary.

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:

	2011 £'000	2010 £'000
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	52
Boydslaw 103 Limited	1,452	1,446
Other trade and asset acquisitions	536	177
	20,509	**20,110**

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections covering a five-year period.

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

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

An annual growth rate of 3% is assumed and a risk adjusted pre-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 10% (2010: 10%) is applied. A WACC of above 13% has to be applied before any impairment arises. A negative growth rate of greater than -2% has to be applied before any impairment arises.

16. Other intangible assets

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

16. Other intangible assets (continued)

2010	Software costs £'000	Customer relationships £'000	Total £'000
Cost			
At 1 March 2009	821	534	1,355
Additions	129	-	129
At 28 February 2010	**950**	**534**	**1,484**
Accumulated amortisation			
At 1 March 2009	261	51	312
Charge for the year	182	27	209
At 28 February 2010	**443**	**78**	**521**
Net book value at 28 February 2010	**507**	**456**	**963**
Net book value at 28 February 2009	**560**	**483**	**1,043**

17. Business combinations

a) Trade and assets of Paisley Peugeot from Johnston of Renfrewshire Limited.

On 31 March 2010 the Group acquired the trade and certain assets of Paisley Peugeot from Johnston of Renfrewshire Limited for total cash consideration of £2,076,000.

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

	Fair Value £'000
Property, plant and equipment	1,597
Inventories	484
Trade and other payables	(5)
	2,076
Goodwill	-
Consideration – satisfied by cash	**2,076**

Acquisition related costs (included in operating expenses in the consolidated income statement for the year ended 28 February 2011) totalled £30,000.

b) Trade and assets of certain dealerships from the administrative receivers of Baker (Crewe) Limited.

On 29 June 2010 the Group acquired two Vauxhall dealerships in Crewe and Macclesfield, through the purchase of the trade and certain assets of the business from the administrative receivers of Baker (Crewe) Limited, for total cash consideration of £2,643,000.

Details of the assets acquired at fair value and goodwill are shown below:

	Fair Value £'000
Property, plant and equipment	1,508
Inventories	1,135
	2,643
Goodwill	-
Consideration – satisfied by cash	**2,643**

Acquisition related costs (included in operating expenses in the consolidated income statement for the year ended 28 February 2011) totalled £39,000.

17. Business combinations (continued)

c) Trade and assets of certain dealerships acquired from Lookers plc.

On 4 October 2010 the Group acquired a Renault and Nissan business in Altrincham and a Ford and Renault business in Macclesfield through the purchase of the trade and certain assets from Lookers plc. Consideration for this acquisition amounted to £3,465,000 and was satisfied in cash.

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

	Fair Value £'000
Property, plant and equipment	2,363
Inventories	1,161
Trade and other payables	(59)
	3,465
Goodwill	-
Consideration – satisfied by cash	**3,465**

Acquisition related costs (included in operating expenses in the consolidated income statement for the year ended 28 February 2011) totalled £82,000.

d) Other acquisitions

On 29 June 2010 the Group acquired the dual franchised Ford and Mazda dealerships in Glasgow and Hamilton, Scotland, through the purchase of the trade and certain assets of the business from Shields Automotive Limited. Consideration was paid in cash.

On 28 July 2010 the Group acquired a SEAT dealership in Derby through the purchase of trade and certain assets from GK Group Limited. Consideration for this acquisition was satisfied in cash.

On 10 September 2010 the group acquired a Peugeot dealership in Dunfermline through the purchase of trade and certain assets from Hardie Motor Group. Consideration for this acquisition was satisfied in cash.

On 22 February 2011 the Group acquired the entire issued share capital of Patrick (Holdings) Limited, a motor retail business which operated a Vauxhall business in Durham.

If the acquisition of Patrick (Holdings) Limited had occurred on 1 March 2010, Group revenues for the year would have been £6,965,000 higher and Group profit attributable to equity holders would have been £63,000 higher.

17. Business combinations (continued)

d) Other acquisitions (continued)

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	1,385
Inventories	3,541
Trade and other receivables	234
Cash and cash equivalents	82
Trade and other payables	(1,726)
Borrowings	(381)
Net assets acquired	**3,135**
Goodwill	359
Consideration – satisfied in cash	**3,494**

Acquisition related costs (included in operating expenses in the consolidated income statement for the year ended 28 February 2011) totalled £210,000 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 and Borrowings Acquired £'000	Total £'000
Former Johnston of Renfrewshire business	2,076	-	2,076
Former Baker (Crewe) businesses	2,643	-	2,643
Former Lookers plc businesses	3,465	-	3,465
Other acquisitions	3,494	(82)	3,412
	11,678	**(82)**	**11,596**
Borrowings acquired	-	381	381
	11,678	**299**	**11,977**

18. Property, plant and equipment

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
Cost					
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)
At 28 February 2011	**70,000**	**3,563**	**3,026**	**3,463**	**80,052**
Accumulated depreciation					
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)
At 28 February 2011	**3,839**	**472**	**768**	**910**	**5,989**
Net Book Value					
At 28 February 2011	**66,161**	**3,091**	**2,258**	**2,553**	**74,063**
At 28 February 2010	**61,337**	**1,600**	**2,044**	**2,048**	**67,029**

* Includes leasehold improvements

** Acquisitions include those business combinations included in note 17 together with the purchase of freehold properties to allow for future expansion of the Group.

During the year, freehold property with a cost of £3,304,000 and accumulated depreciation of £66,000 were transferred into assets held for resale.

Depreciation expense of £3,389,000 has been charged in operating expenses (note 6).

In addition to the security provided for the Group's borrowings, specific charges over freehold land and buildings amounting to £10,900,000 (2010: £10,900,000) have been granted to manufacturer partners as security against consignment stocking lines.

18. Property, plant and equipment (continued)

2010	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
Cost					
At 1 March 2009	44,407	2,062	3,346	2,295	52,110
Acquisitions**	17,528	-	218	253	17,999
Additions	2,307	40	306	707	3,360
Disposals	(1,030)	-	(856)	(638)	(2,524)
Reclassifications	636	(201)	(431)	(4)	-
At 28 February 2010	**63,848**	**1,901**	**2,583**	**2,613**	**70,945**
Accumulated depreciation					
At 1 March 2009	1,402	14	471	410	2,297
Depreciation charge	1,127	79	945	794	2,945
Disposals	(8)	-	(684)	(634)	(1,326)
Reclassifications	(10)	208	(193)	(5)	-
At 28 February 2010	**2,511**	**301**	**539**	**565**	**3,916**
Net Book Value					
At 28 February 2010	**61,337**	**1,600**	**2,044**	**2,048**	**67,029**
At 28 February 2009	**43,005**	**2,048**	**2,875**	**1,885**	**49,813**

* Includes leasehold improvements

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

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 28 February 2011 and 28 February 2010 were:

Company	Principal activity
Vertu Fleet Limited	Dormant company
Vertu Motors Third Limited	Dormant company
Vertu Motors (Property) Limited	Property holding company
Vertu Motors (Retail) Limited	Dormant company
Bristol Street Fleet Services Limited	Dormant company
Bristol Street Commercials (Italia) Limited	Motor Retailer
Vertu Motors (AMC) Limited	Dormant company
Vertu Motors (France) Limited	Dormant company
Bristol Street Group Limited	Motor Retailer
Motor Nation Car Hypermarkets Limited	Motor Retailer*
Bristol Street First Investments Limited	Motor Retailer
Bristol Street Fourth Investments Limited	Motor Retailer
Bristol Street Fifth Investments Limited	Holding company (dormant subsidiaries)
Vertu Motors (VMC) Limited	Motor Retailer
Grantham Motor Company Limited	Motor Retailer
Blake Holdings Limited	Holding company (dormant subsidiaries)
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
Merifield Properties Limited	Dormant company
Peter Blake Limited	Dormant company
Peter Blake (Chatsworth) Limited	Dormant company
Peter Blake (Clumber) Limited	Dormant company
BSH Pension Trustee Limited	Pension Scheme Trustee
Vertu Motors (Finance) Limited	Finance company
Boydslaw 103 Limited	Holding company
Dunfermline Autocentre Limited	Motor retailer*
Typocar Limited	Motor retailer*

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), were acquired in the year ending 28 February 2011:

Company	Principal activity
Vertu Motors (Durham) Limited (previously Patrick (Holdings) Limited)	Holding company
Vertu Motors (Pity Me) Limited (previously Patrick (Durham) Limited)	Motor Retailer

* On 28 February 2011 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 2011.

Notes to the Consolidated Financial Statements (continued)

20. Inventories

	2011 £'000	2010 £'000
New Vehicles	149,061	126,628
Used, demonstrator and courtesy vehicles	34,683	32,869
Parts and sundry stocks	7,912	6,812
	191,656	**166,309**

The cost of inventories recognised as expense and included within 'cost of sales' amounted to £828,000,000 (2010: £736,469,000).

Motor vehicles include new vehicles invoiced not yet paid and held by manufacturers to the order of the Group of £137,002,000 (2010: £118,628,000). A corresponding liability is held within trade payables.

21. Property assets held for sale

	2011 £'000	2010 £'000
At beginning of year	4,900	10,250
Transfers in from freehold property	3,238	-
Disposals	-	(5,250)
Impairment of property assets held for resale	(1,508)	(100)
At end of year	**6,630**	**4,900**

During the year ended 28 February 2011, property assets held for resale were written down to their estimated realisable value, resulting in an impairment charge of £1,508,200 (2010: £100,000). This charge is disclosed within exceptional costs in note 8.

22. Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	18,115	13,677
Less provision for impairment of trade receivables	(469)	(337)
Trade receivables (net)	**17,646**	**13,340**
Other receivables	6,828	6,185
Prepayments and accrued income	4,354	2,553
	28,828	**22,078**

As at 28 February 2011, trade receivables of £497,000 (2010: £586,000) were past due but not impaired. The ageing of these receivables are all within 3 months overdue.

As at 28 February 2011, trade receivables of £469,000 (2010: £337,000) were impaired and provided for.

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

	2011 £'000	2010 £'000
At beginning of year	337	382
Charge for receivables impairment	451	519
Receivables written off during the year as uncollectible	(81)	(23)
Unused amounts reversed	(238)	(541)
At end of year	**469**	**337**

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

	2011 £'000	2010 £'000
Cash in bank and in hand	23,442	31,793
Short term bank deposits	-	2,554
	23,442	**34,347**

24. Trade and other payables

	2011 £'000	2010 £'000
Current		
Trade payables	199,481	178,663
Social security and other taxes	2,514	1,900
Accruals and deferred income	13,161	10,336
Other payables	14,000	11,000
	229,156	**201,899**

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.

25. Borrowings

	2011 £'000	2010 £'000
Current		
Bank borrowings	500	168
Non-current		
Bank borrowings	9,303	10,655
	9,803	**10,823**

Borrowings are repayable as follows:

	2011 £'000	2010 £'000
6 months or less	-	84
6-12 months	500	84
1-5 years	9,303	10,655
	9,803	**10,823**

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 28 February 2011, loans were subject to an interest rate of 0.75% above LIBOR until 15 October 2010. From this date new financing arrangements were entered into which saw an interest rate of 2.25% above LIBOR being charged. A rate of 2.25% above base rate has been applied in relation to overdrafts and a rate of 2% above LIBOR has been applied on the Group's Committed Money Market Loan ("CMML") facility. These rates have been reduced on renewal of these facilities on 9 May 2011. The bank borrowings are secured on the assets of the Company and the Group.

In the year to February 2010, with the acquisition of Boydslaw 103 Limited, the Group entered into a mortgage arrangement with its existing bankers in relation to the property at Dunfermline Autocentre. This mortgage arrangement of £1,089,000 was repaid in full on 15 October 2010. The interest rate payable on this mortgage was 1.9% above base rate.

The Group has the following undrawn borrowing and overdraft facilities:

	2011 £'000	2010 £'000
Floating rate		
- Overdraft (uncommitted) expiring in one year	5,000	5,000
- CMML (committed) facility expiring in one year	20,000*	15,000
- Loan facility expiring in greater than one year	15,000	-
	40,000	**20,000**

* Increased facility established on 9 May 2011

b) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £23,442,000 (2010: £34,347,000). 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.

26. Derivative financial instruments

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

	2011 Non-current Assets £'000	2010 Non-current Liabilities £'000
Interest rate swaps – cash flow hedges	81	1,434

The notional principle amounts of the outstanding interest rate swap contracts at 28 February 2011 were £10,000,000 (2010: £15,000,000). On 16 March 2010 a £5,000,000 notional value contract was cancelled, leaving one contract of £10,000,000 left to mature on 5 April 2012. On 29 November 2010 this remaining swap was also cancelled. A new 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 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 (2010: 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:

	2011 £'000	2010 £'000
Deferred tax asset to be recovered after more than 12 months	(254)	(1,014)
Deferred tax liabilities to be recovered after more than 12 months	4,270	4,555
Deferred tax liabilities (net)	**4,016**	**3,541**

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

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
At 28 February 2011	**4,270**	**(254)**	**4,016**

27. Deferred income tax liabilities (continued)

2010	Deferred tax liabilities £'000	Deferred tax assets £'000	Net £'000
At 1 March 2009	5,284	(868)	4,416
Credited to income statement (note 12)	(197)	(284)	(481)
(Credited) charged directly to equity	(532)	138	(394)
At 28 February 2010	**4,555**	**(1,014)**	**3,541**

The Group gross movement on the deferred income tax account as set out above can be analysed as follows:

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
At 28 February 2011	**3,360**	**(33)**	**616**	**75**	**(2)**	**4,016**

2010	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Tax losses £'000	Total £'000
At 1 March 2009	5,198	-	37	(819)	-	4,416
(Credited) charged to income statement	(787)	(33)	357	(18)	-	(481)
(Credited) charged directly to equity	-	-	(532)	138	-	(394)
At 28 February 2010	**4,411**	**(33)**	**(138)**	**(699)**	**-**	**3,541**

In addition to the changes in rates of Corporation tax disclosed above a number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. A resolution passed by Parliament on 29 March 2011 reduced the main rate of corporation tax to 26% from 1 April 2011. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes enacted by Parliament on 29 March 2011, the changes expected to be enacted in the Finance Act 2011 and the proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 will not create significant movements in the deferred tax liability, income statement or comprehensive income.

28. Provisions for other liabilities

	2011 £'000	2010 £'000
At beginning of year	2,554	1,433
Charged to the income statement (additional provisions)	3,172	2,037
Credited to the income statement (unused amounts reversed)	(242)	(230)
Utilised during year	(1,334)	(686)
At end of year	**4,150**	**2,554**

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 2011 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:

	Expected rate of return 28 February 2011 %	Market Value 28 February 2011 £'000	Expected rate of return 28 February 2010 %	Market Value 28 February 2010 £'000
Equities	7.7	12,670	8.0	12,080
Bonds	4.5	16,073	4.8	14,830
Other	1.6	278	1.3	186
	5.9	**29,021**	**6.2**	**27,096**

Vertu Motors plc 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 28 February 2011.

29. Retirement benefit obligations (continued)

The overall net deficit or 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:

	2011 £'000	2010 £'000
Fair value of scheme assets	29,021	27,096
Present value of funded obligations	(26,726)	(27,591)
Asset (liability) on the balance sheet	**2,295**	**(495)**

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

	2011 £'000	2010 £'000
Opening fair value of scheme assets	27,096	21,183
Expected return on scheme assets	1,357	1,121
Actuarial gains	1,319	4,254
Employer contributions	428	1,521
Benefits paid	(1,179)	(983)
As at end of year	**29,021**	**27,096**

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

	2011 £'000	2010 £'000
Opening fair value of scheme liabilities	27,591	21,053
Interest cost	1,567	1,365
Actuarial (gains) losses	(1,253)	6,156
Benefits paid	(1,179)	(983)
Closing fair value of scheme liabilities	**26,726**	**27,591**

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

	2011 £'000	2010 £'000
Interest cost (note 11)	1,567	1,365
Expected return on scheme assets (note 11)	(1,357)	(1,121)
Total, included in finance costs (income)	**210**	**244**

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

	2011 £'000	2010 £'000
Expected return on scheme assets	1,357	1,121
Actuarial gains	1,319	4,254
	2,676	**5,375**

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

	2011	2010
Discount rate for scheme liabilities	5.7%	5.8%
Limited Price Indexation ("LPI") pension increases	3.3%	3.4%
Inflation rate	2.5%	3.6%

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

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:

	2011	2010
Male	23	23
Female	25	25

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

	2011	2010
Male	25	25
Female	27	26

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

	2011 £'000	2010 £'000
Actuarial gains (losses)	2,572	(1,902)
Related deferred tax (liability) asset (note 27)	(693)	532
Total, included within retained earnings	**1,879**	**(1,370)**
Cumulative actuarial losses	**(520)**	**(3,092)**

	28 February 2011	28 February 2010	28 February 2009	29 February 2008
Defined benefit obligation	(26,726)	(27,591)	(21,053)	(25,520)
Scheme assets	29,021	27,096	21,183	28,637
Surplus/(deficit)	**2,295**	**(495)**	**130**	**3,117**
Experience adjustments on liabilities	-	63	(318)	(155)
Experience adjustments on assets	1,319	4,254	(6,426)	(667)

30. Ordinary shares, share premium and other reserves

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**

Notes to the Consolidated Financial Statements (continued)

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

2010	Ordinary shares of 10 each Number of Shares ('000)	Ordinary shares £'000	Share premium £'000	Other reserve £'000	Total £'000
At 1 March 2009	91,982	9,198	40,991	7,969	58,158
Shares issued during the year	105,575	10,558	19,515	359	30,432
At 28 February 2010	**197,557**	**19,756**	**60,506**	**8,328**	**88,590**

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

During the year ended 28 February 2011 there was one issue of shares. On 19 May 2010 the company allotted 1,720,918 shares at a price of 38.6p per share in satisfaction of the further consideration pursuant to the acquisition of Boydslaw 103 Limited.

During the year ended 28 February 2010, there were two tranches of share issues. On 18 June 2009, the Company raised net proceeds of £29,947,000, through a placing and issued 104,319,377 ordinary shares at a price of 30p per share. On 29 January 2010, in order to satisfy the initial consideration of the Boydslaw 103 Limited acquisition, the Company issued 1,255,259 ordinary shares at a price of 38.6p per share.

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 30 to 34. 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 37 a share based payments charge of £81,000 (2010: £119,000) has been recognised during the year, in relation to the schemes as described within the Remuneration Report on pages 30 to 34.

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 28 February 2011 No of shares	Granted / Outstanding at 28 February 2010 No of shares	Exercise Price p	Date from which exercisable	Expiry Date
2 Mar 2007	-	393,333	75p	2 Mar 2010	2 Mar 2017
27 Mar 2007	-	670,570	93.5p	27 Mar 2010	27 Mar 2017
4 May 2007*	203,704	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*	648,592	754,226	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*	183,000	233,000	40p	1 Apr 2011	1 Apr 2018
21 May 2008**	410,000	440,000	44p	21 May 2011	21 May 2018
27 Jun 2008**	20,000	20,000	38.3p	27 Jun 2011	27 Jun 2018
20 Aug 2009	5,870,000	6,510,000	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	1,420,000	-	36.75p	19 May 2013	19 May 2020
	10,296,441	**10,765,978**			

*Vested subsequent to 28 February 2010

**Partially vested subsequent to 28 February 2011

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

	2011 No of share options	2010 No of share options
At beginning of year	10,765,978	3,968,306
Granted	1,420,000	7,230,000
Lapsed	(1,063,903)	-
Forfeited	(825,634)	(432,328)
At end of year	**10,296,441**	**10,765,978**

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 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 28 February 2011 was 27.5p (2010: 38p) and the range during the financial year was 25.3p to 39.0p (2010: 15.5p to 49p).

The weighted average share price during the year was 31p (2010: 40p).

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 4p (2010: 13p) 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%
Expectations of meeting performance criteria	0%

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:

	2011 £'000	2010 £'000
At beginning of year	(672)	(1,032)
Fair value gains on derivative financial instruments during the year	81	-
Deferred taxation on fair value gains during year	(22)	-
Recycling of cash flow hedge reserve through the income statement	933	498
Deferred tax on recycling of cash flow hedge reserve	(261)	(138)
At end of year	**59**	**(672)**

32. Reconciliation of net cash flow to movement in net cash (debt)

	2011 £'000	2010 £'000
Net (decrease) increase in cash and cash equivalents	(10,905)	21,440
Cash inflow from increase in borrowings	(10,000)	(1,089)
Cash outflow from repayment in borrowings	10,941	6,677
Cash movement in net debt	**(9,964)**	**27,028**
Amortisation of loan arrangement fee	(79)	(75)
Non cash movement in net debt	**(79)**	**(75)**
Movement in net debt	**(9,885)**	**26,953**
Opening net cash (debt)	**23,524**	**(3,429)**
Closing net cash	**13,639**	**23,524**

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 £1,716,000 were outstanding as at 28 February 2011 (2010: £430,000).

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:

	2011		**2010**	
	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	5,331	1,211	4,278	1,293
Later than 1 year and no later than 5 years	18,830	362	16,434	352
Later than 5 years	43,921	-	41,252	-
	68,082	**1,573**	**61,964**	**1,645**

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 28 February 2011 is set out in note 9.

On 29 January 2010 the Group acquired the entire issued share capital of Boydslaw 103 Limited. R Forrester, Chief Executive Officer of the Company, was a shareholder in Boydslaw 103 Limited and owned 19.6% of its issued share capital. Therefore, the acquisition represented a related party transaction. The acquisition required shareholder approval under the substantial property transaction provisions of the Companies Act 2006 (Section 190), which was received on 29 January 2010. Pursuant to the share purchase agreement for this acquisition, 337,435 ordinary shares were issued to R Forrester on 19 May 2010 in satisfaction of the further consideration arising.

On 5 October 2010, Vertu Motors plc became a member of Trusted Dealers Limited, a company limited by guarantee, which was set up to operate a used car sales website. R Forrester is also an unpaid non-executive director of Trusted Dealers Limited. As a member, Vertu Motors plc receives 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.

36. Events after the balance sheet date

On 18 April 2011 the Group acquired a SEAT dealership in Barnsley, Yorkshire, for an estimated consideration of £0.9m, including a freehold property, taking the number of SEAT dealerships operated by the Group to three.

On 11 May 2011, Panmure Gordon & Co were appointed as nomad and sole broker and financial advisor to the Group.

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 28 February 2011 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.

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 28 February 2011;
- 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 28 February 2011.

Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
11 May 2011

Company Balance Sheet
As at 28 February 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	2	1,304	875
Investments in subsidiary undertakings	3	53,684	21,779
		54,988	**22,654**
Current assets			
Debtors	4	31,096	44,386
Cash at bank and in hand		44,449	48,250
Total current assets		**75,545**	**92,636**
Creditors: amounts falling due within one year	5	**(23,569)**	**(19,803)**
Net current assets		**51,976**	**72,833**
Total assets less current liabilities		**106,964**	**95,487**
Creditors: amounts falling due after more than one year	6	**(9,197)**	**(11,062)**
Provisions for liabilities	8	**(4,249)**	**(2,554)**
Net assets		**93,518**	**81,871**
Capital and reserves			
Called up share capital	9	19,928	19,756
Share premium account	9	60,506	60,506
Other reserve	9	8,820	8,328
Hedging reserve	10	59	(672)
Profit and loss account	11	4,205	(6,047)
Total shareholders' funds	13	**93,518**	**81,871**

These financial statements have been approved for issue by the Board of Directors on 11 May 2011.

Robert Forrester
Chief Executive

Michael Sherwin
Finance Director

Notes to the Company Financial Statements

For the year ended 28 February 2011

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 28 February 2011 was £10,570,000 (2010: loss of £3,458,000).

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 software and equipment	16.6% -25%
Office equipment	25%
Company vehicles	20%

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.

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 7. Movements on the hedging reserve are shown in note 10. 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 fixed assets

	Computer Equipment £'000	Office Equipment £'000	Company Vehicles £'000	Total £'000
Cost				
At 1 March 2010	1,521	105	35	1,661
Additions	842	91	-	933
Disposals	-	(27)	(35)	(62)
Transfers	-	23	-	23
At 28 February 2011	**2,363**	**192**	**-**	**2,555**
Accumulated Depreciation				
At 1 March 2010	698	64	24	786
Depreciation charge	457	35	4	496
Disposals	-	(14)	(28)	(42)
Transfers	-	11	-	11
At 28 February 2010	**1,155**	**96**	**-**	**1,251**
Net Book Value				
At 28 February 2011	**1,208**	**96**	**-**	**1,304**
At 28 February 2010	**823**	**41**	**11**	**875**

Notes to the Company Financial Statements (continued)

3. Investments in subsidiary undertakings

	2011 £'000	2010 £'000
Cost and net book value		
At beginning of year	21,779	19,294
Additions	-	2,485
Transfers from other Group companies	31,905	-
At end of year	**53,684**	**21,779**

Vertu Motors plc, the Company, as at 28 February 2011 and 28 February 2010, invested in 100% of the ordinary share capital of the following significant subsidiary undertakings, incorporated in the United Kingdom:

Company	Principal activity
Vertu Fleet Limited	Dormant company
Vertu Motors (Property) Limited	Property holding company
Vertu Motors (Retail) Limited	Dormant company
Vertu Motors Third Limited	Dormant company
Vertu Motors (Finance) Limited	Finance company
Vertu Motors (AMC) Limited	Dormant company
Vertu Motors (France) Limited	Dormant company
Vertu Motors (VMC) Limited	Motor Retailer
Bristol Street Commercials (Italia) Limited	Motor Retailer
Motor Nation Car Hypermarkets Limited	Motor Retailer**
Grantham Motor Company Limited	Motor Retailer
Bristol Street First Investments Limited	Motor Retailer
Bristol Street Fourth Investments Limited	Motor Retailer
Bristol Street Fleet Services Limited*	Dormant company
Bristol Street Group Limited*	Motor Retailer
Bristol Street Fifth Investments Limited*	Holding company (dormant subsidiaries)
Blake Holdings Limited*	Holding company (dormant subsidiaries)
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
Merifield Properties Limited*	Dormant company
Peter Blake Limited*	Dormant company
Peter Blake (Chatsworth) Limited*	Dormant company
Peter Blake (Clumber) Limited*	Dormant company
BSH Pension Trustee Limited*	Pension Scheme Trustee
Boydslaw 103 Limited*	Holding company
Dunfermline Autocentre Limited*	Motor retailer**
Typocar Limited	Motor retailer**

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), were acquired in the year ending 28 February 2011:

Vertu Motors (Durham) Limited (previously Patrick (Holdings) Limited)*	Holding company
Vertu Motors (Pity Me) Limited (previously Patrick (Durham) Limited)*	Motor Retailer

3. Investments in subsidiary undertakings (continued)

*Held indirectly by the Company.

**On 28 February 2011 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 2011.

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

4. Debtors

	2011 £'000	2010 £'000
Trade debtors	567	256
Derivative financial instruments (note 7)	81	-
Amounts owed by Group undertakings	26,949	41,414
Deferred tax asset (note 8)	-	540
Value Added Tax	1,487	1,009
Prepayments and accrued income	2,012	1,167
	31,096	**44,386**

5. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Bank loans	500	-
Trade creditors	2,461	1,867
Other creditors	14,000	11,000
Corporation tax	714	653
Deferred consideration	-	664
Other taxation and social security	1,913	1,557
Accruals and deferred income	3,981	4,062
	23,569	**19,803**

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

6. Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Bank borrowings	9,197	9,628
Derivative financial instruments (note 7)	-	1,434
	9,197	**11,062**

	2011 £'000	2010 £'000
Borrowings are repayable as follows:		
Under 1 year	500	-
1-2 years	2,000	-
2-5 years	7,197	9,628
	9,697	**9,628**

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.

6. Creditors: amounts falling due after more than one year (continued)

	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
At 28 February 2011	**24,069**	**9,197**	**33,266**

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	-	9,628	9,628
Derivative financial instruments	-	1,434	1,434
Trade and other creditors	19,803	-	19,803
At 28 February 2010	**19,803**	**11,062**	**30,865**

7. Derivative financial instruments

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

	2011 Assets £'000	2010 Long term Liabilities £'000
Interest rate swaps – cash flow hedges	81	1,434

The notional principle amounts of the outstanding interest rate swap contracts at 28 February 2011 were £10,000,000 (2010: £15,000,000). On 16 March 2010, the £5,000,000 notional value contract was cancelled, leaving one contract of £10,000,000 left to mature on 5 April 2012.

Furthermore on 29 November 2010 this remaining swap was also cancelled. A new 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 10.

8. Provisions for liabilities

Provisions for liabilities comprise:

	2011 £'000	2010 £'000
Deferred tax liability	99	-
Warranty provision	4,150	2,554
At end of year	**4,249**	**2,554**

The movements on provisions are:

a) Deferred tax liability (asset)

	2011 £'000	2010 £'000
At beginning of year	(540)	(413)
Charged (credited) to the profit and loss account	356	(265)
Charged directly to equity	283	138
At end of year	**99**	**(540)**

8. Provisions for liabilities (continued)

a) Deferred tax liability (asset) (continued)

The amounts recognised for deferred tax liabilities / (assets), calculated under the liability method at 27% are set out below:

	2011 £'000	2010 £'000
Depreciation in excess of capital allowances	(85)	(68)
Other short term timing differences	184	(472)
Total	**99**	**(540)**

b) Warranty provision

	2011 £'000	2010 £'000
At beginning of year	2,554	1,433
Charged to the profit and loss account (additional provisions)	3,172	2,037
Credited to the profit and loss account (unused amounts)	(242)	(230)
Utilised during year	(1,334)	(686)
At end of year	**4,150**	**2,554**

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.

9. Called up share capital, share premium account and other reserve

	Ordinary shares Number of Shares ('000)	Called up Share capital £'000	Share premium account £'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 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 Bristol Street Group Limited, Blake Holdings Limited and Boydslaw 103 Limited.

During the year ended 28 February 2011 there was one issue of shares. On 19 May 2010 the Company allotted 1,720,918 shares in satisfaction of the further consideration pursuant to the acquisition of Boydslaw 103 Limited.

During the year ended 28 February 2010, there were two tranches of share issues. On 18 June 2009, the Company raised net proceeds of £29,947,000, through a placing and issued 104,319,377 ordinary shares at a price of 30p per share. On 29 January 2010, in order to satisfy the initial consideration of the Boydslaw 103 Limited acquisition, the Company issued 1,255,259 ordinary shares at a price of 38.6p per share.

Notes to the Company Financial Statements (continued)

10. Hedging reserve

	2011 £'000	2010 £'000
Cash flow hedges:		
At beginning of year	(672)	(1,032)
Fair value gains on derivative financial instruments during the year	81	-
Deferred taxation on fair value gains during year	(22)	-
Recycling of cash flow hedge reserve through the profit and loss account	933	498
Deferred tax on recycling of cash flow hedge reserve	(261)	(138)
At end of year	**59**	**(672)**

11. Profit and loss account

	2011 £'000	2010 £'000
As at beginning of year	(6,047)	(2,708)
Profit loss for the year	10,570	(3,458)
Dividend paid (note 12)	(399)	-
Share based payments adjustment (note 14)	81	119
As at end of year	**4,205**	**(6,047)**

12. Dividends per share

The dividend paid in the year to 28 February 2011 was 0.2p per share (2010 Nil). A final dividend in respect of the year ended 28 February 2011 of 0.3p per share, amounting to a total dividend of £598,000 is to be proposed at the annual general meeting on 21 July 2011. These financial statements do not reflect this dividend payable.

13. Reconciliation of movements in shareholders' funds

	Called up Share capital £'000	Share Premium account £'000	Other reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
As at 1 March 2010	**19,756**	**60,506**	**8,328**	**(672)**	**(6,047)**	**81,871**
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
As at 28 February 2011	**19,928**	**60,506**	**8,820**	**59**	**4,205**	**93,518**

13. Reconciliation of movements in shareholders' funds (continued)

	Share capital £'000	Share Premium account £'000	Other reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
As at 1 March 2009	**9,198**	**40,991**	**7,969**	**(1,032)**	**(2,708)**	**54,418**
Loss for the year	-	-	-	-	(3,458)	(3,458)
Recycling of cash flow hedge reserve	-	-	-	498	-	498
Tax on items taken directly to equity	-	-	-	(138)	-	(138)
Share based payments credit	-	-	-	-	119	119
New ordinary shares issued	10,558	20,864	359	-	-	31,781
Costs associated with issuance of ordinary shares		(1,349)	-	-	-	(1,349)
As at 28 February 2010	**19,756**	**60,506**	**8,328**	**(672)**	**(6,047)**	**81,871**

14. 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 £81,000 (2010: £119,000).

15. Contingencies

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

16. Directors' Remuneration

The remuneration of the Directors who served during the year from 1 March 2010 to 28 February 2011 is set out within note 9 to the consolidated financial statements.

17. 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:

Commitments under non-cancellable operating leases expiring:	2011 Vehicles £'000	2010 Vehicles £'000
No later than 1 year	16	16
Later than 1 year and no later than 2 years	189	164
	205	**180**

18. 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 statements are presented with consolidated financial statements of its Group.

Notes to the Company Financial Statements (continued)

19. Post balance sheet events

On 11 May 2011, Panmure Gordon & Co were appointed as nomad and sole broker and financial advisor to the Company.

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