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VERTU Motors plc

ANNUAL REPORT & FINANCIAL STATEMENTS

For the year ended 28 February 2014

...built on trust

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Vertu Motors plc Mission Statement

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

Strategic Report

The Directors present their strategic report on the affairs of the Group and Company, for the year ended 28 February 2014.

Business Review and Future Developments

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

The Group has a number of Key Performance Indicators ("KPI's") by which it monitors its business. These include sales and gross margins by channel; an analysis of these KPI's is set out in the Chief Executive's Review on page 11**.**

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, interest rate movements and changes to levels of taxation on vehicles also have a direct effect on the Group's sales. The Group closely monitors several internal and external measures and indicators and management takes action (for example, on selling prices or on costs) as appropriate.

- **Vehicle Manufacturer Dependency**

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

- **Used Vehicle Prices**

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

- **Reliance on Certain Key Colleagues and Management**

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

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

- **Liquidity and Financing Risk**

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

- **Reliance on the Use of Estimates**

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

- **Information Systems**

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

- **Legislative Changes to Vehicle Distribution**

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

- **Exchange Rates**

The Group is affected by currency fluctuations to the extent that a large proportion of our manufacturer partners manufacture vehicles or source parts overseas in foreign currency. The fluctuation of the Euro and Yen against Sterling could lead manufacturers to adjust prices and support packages to their retailers. The Board is aware of the uncertainties associated with this risk area and seeks to mitigate the risk by ensuring that the Group retains a broad mix of manufacturer partners, manufacturing in the UK and overseas, to limit the potential impact. No material foreign currency transactions are undertaken by the Group directly.

Financial position and performance

A comprehensive analysis of the business during the year and the position at the year end is contained within the Chairman's Report, the Chief Executive' Review and the Finance Director's Review.

Chairman's Statement

Since flotation just over seven years ago in December 2006, the Group has established itself as a major player in the United Kingdom automotive retail sector. The Group now operates 108 sales outlets up from 96 this time last year and is the sixth largest automotive retailer in the UK by revenues. In this statement, the Board is reporting a further year of strong growth in revenue, adjusted operating profit, earning per share operating cash flows and dividends. Importantly the growth has come from both the like-for-like operations and from the acquisitions made over the last 24 months.

The Board has maintained a consistent strategy since flotation to grow a scaled automotive retail group and until this reported financial year achieved this through acquiring principally volume franchised dealerships in the UK. In June 2013 this emphasis was shifted by the acquisition of Farnell Land Rover, a highly successful business comprising three dealerships representing the premium Land Rover franchise. In July 2013 the Group acquired its first two Volkswagen dealerships, followed in November by three more to create a significant Volkswagen market area in the East Midlands. Further expansion announced yesterday with the purchase of Hillendale Group Limited, brought a further Land Rover dealership, contiguous with Farnell's current territory, to the Group, and Vertu's first Jaguar dealership. The acquisitions of these dealerships represent a broadening of the franchise composition of the Group rather than a change of direction. We will continue to acquire dealerships across the volume and premium spectrum as the Group continues its acquisition strategy. The fragmented nature of the UK automotive retail sector means that significant growth potential remains through continued strategic acquisitions. The addition of further dealerships and marques to the Group's portfolio will help to deliver the Board's goal of mirroring the market share of manufacturers in the UK in the Group's portfolio of franchised dealerships.

The Group's strategy is to deliver enhanced business performance from acquired dealerships through the implementation of consistent business processes and systems. Many of the Group's acquisitions can be characterised as turnaround in nature, with the creation of new dealerships in start-up opportunities sharing similar challenges. These opportunities rely heavily on strong, quality management teams in order to deliver the required returns over time. The recruitment, development and retention of high performing motor retail professionals is of paramount importance and the Group has developed a culture which seeks to attract and retain top performers. As the Group expands, the management capacity and bandwidth to allow further controlled expansion is continually assessed by the Board. During the year four new franchised based operating divisions were created and the Board expects to see the full benefits of this investment in the coming year.

The success of this strategy is evidenced by the fast pace of growth since the first acquisition in 2007 and the turnaround and integration of acquired dealerships to date. Many of the acquisitions undertaken in recent periods have still to reach maturity in terms of performance enhancement and this should enable the Group to deliver improved margins and further organic profit growth over the medium term as exhibited this year.

The Group continually reviews all operations to ensure they will deliver shareholder value in the medium term. During the year the Group disposed of its non-core Iveco heavy commercial vehicles business. The business was loss making and the disposal resulted in immediate earnings enhancement.

The Group's Mission Statement is "to deliver an outstanding customer motoring experience through honesty and trust". This approach should secure significant gains in vehicle sales and market share in our local territories. The increase in each vehicle parc, coupled with high levels of customer retention, is designed to deliver higher aftersales activity levels, thereby allowing the Group to grow profitability. This strategy is being executed with the Group tending to deliver above national average new vehicle market share for manufacturers in our territories and seeing year on year rises in aftersales volumes and profits. These key performance indicators, in addition to colleague and customer satisfaction scores, are the key drivers for management at all levels. The Board is pleased to note a significant majority of dealerships deliver above average customer satisfaction scores in sales and service, as measured by our manufacturer partners and colleague satisfaction scores measured in July each year are very strong. The Group was also recognised within the Hyundai, Land Rover and SEAT franchises for having the best UK dealerships in that brand for customer service in 2013.

We have a first rate, scalable and highly motivated operational team and I would like to take this opportunity to thank every member of the team for their dedication and hard work during the year. They have created and strengthened the unique culture within the business and driven the profitability of the Group to record levels.

Dividends

The Board has proposed an increase in the final dividend to 0.5 pence per share. Taken together with the interim dividend of 0.3 pence per share, this provides a total dividend for the year of 0.8 pence per share (2013: 0.7p), an increase of 14.3%. The Board continues to seek a progressive dividend policy while balancing this with the investment opportunities available to the Group to drive total shareholder returns.

Current trading and outlook

The Group has traded significantly ahead of the prior year in March and April reflecting the growth in new and used vehicle sales and aftersales, together with an increased contribution from recently acquired dealerships.

March remains the most significant month for the profitability of UK automotive retail as a consequence of the plate change and its impact on new car demand and the seasonality of servicing. UK new car registrations to private buyers ("the retail market") in March increased by 20.8% showing a continuation of the strong growth seen throughout the last two years. The Group's like-for-like new car retail (excluding Motability) sales volumes increased by 20.5%. New vehicle like-for-like gross margins on a percentage and per unit basis were slightly lower year on year as a result of increased discounting to drive volumes. The increased volume, however, more than made up for this margin shortfall with overall increases in new vehicle total gross profit on a like-for-like basis. Profitability was also improved by the dealerships acquired last year for which this was their first March within the Group.

The Group's like-for-like used retail volumes were up 14.5% in March and April. Gross profit per unit was maintained and the Group delivered an enhanced profit performance in used cars as a result. Dealerships acquired in recent years are again exhibiting improved used car returns as they move towards Group average return on investment levels. The used car market currently remains stable with strong demand and residual values moving in line with normal seasonal trends.

Service profitability since the year-end has run ahead of the prior year and continues to benefit from the successful customer retention initiatives being executed by the Group.

The Group saw a continuation of positive trading trends in April with strong contribution from dealerships acquired in the past two years. The Group's like-for-like new retail (excluding Motability) sales volumes rose 3.7%.

The outlook for the new car market in the UK remains favourable with anticipated growth in the private market, albeit at lower levels of growth than witnessed over the last year. This means a continuation of the recent trend of manufacturers to direct higher volumes of vehicles to the UK as they seek to manage European overcapacity in the face of weak Continental European demand. There is a continued risk that this growth may lead to pressure on new vehicle margins, yet a higher volume environment normally benefits the Group through higher overall profitability. Whilst some Western European markets have entered positive territory of late, the UK market remains a major outlet for vehicle manufacturers. Medium term aftersales prospects are clearly enhanced by a growing new vehicle parc.

Chairman's Statement (continued)

Current trading and outlook (continued)

The Board remains confident that the Group is well placed to maximise the opportunity for profitable growth as recent acquisitions are integrated and turned around and the core business continues to improve profitability.

The Group continues to have a strong pipeline of acquisition opportunities across a number of manufacturer partners, and the Board considers there is considerable potential for future acquisition growth which may include adding new franchises to the Group's portfolio.

P R Williams
Non-Executive Chairman

Chief Executive's Review

Portfolio Development

During the year the Group has continued to invest in its rapid growth strategy and has expanded the number of sales outlets from 96 at 28 February 2013 to 108 sales outlets at 7 May 2014 through acquisitions and opening new start-up dealerships. The Group now operates its 108 sales outlets from 89 locations.

The current dealership portfolio is summarised below:

Dealership numbers	**May**	**May**
Car franchises	**2014**	**2013**
Ford	20	21
Vauxhall	14	14
Nissan	9	7
Peugeot	9	9
Honda	9	9
Hyundai	7	5
SEAT	5	4
Volkswagen	5	-
Citroen	4	4
Mazda	4	4
Renault / Dacia	4	4
Land Rover	4	-
Fiat	3	3
Alfa Romeo	2	2
Volvo	2	1
Suzuki	1	1
Chrysler Jeep	1	1
Jaguar	1	-
Mitsubishi	-	1
	104	**90**
Commercial vehicle franchises		
Iveco	-	3
	-	**3**
Motorcycle franchise		
Honda	**1**	**1**
Non-franchised outlets		
Bristol Street Versa (wheelchair accessible vehicles)	1	1
Bristol Street Motors used car operation	2	1
	3	**2**
Total sales outlets	**108**	**96**

Portfolio Development (continued)

The year saw significant expansion of the Group's franchise operations with the addition of the premium Land Rover and Volkswagen franchises as manufacturer partners. In June 2013 the Group raised £50m from a placing at 38 pence per ordinary share to finance the acquisition of Albert Farnell Limited for £31.0m (including £17.4m of goodwill), comprising Land Rover dealerships in Leeds, Bradford and Guiseley. Land Rover was recently voted by UK automotive retailers the UK's most valuable and desired franchise in an NFDA survey and has had a series of highly successful product launches, such as the New Range Rover and Range Rover Sport. In February 2014 it was announced by Land Rover that Farnell Leeds had won the Land Rover Dealership of the Year award for the second year running, and the Group had won the Dealer Group of the Year award. This provides evidence of the first class quality of the Farnell businesses and of their successful integration into the Group. They now operate all of the Group's systems, policies and procedures, and the integration plan has been successfully completed. Jatinder Aujla, the Operations Director of the Farnell business, has been appointed to the CEO Committee of the Group, the Group's main operational Board.

Post the year end, on 2 May 2014, the Group acquired the entire share capital of Hillendale Group Limited. This brought a further Land Rover dealership in Burnley, Lancashire, to the Group which is contiguous geographically with the Farnell businesses acquired last year. In addition, the transaction brings the Jaguar franchise to the Group for the first time in the form of Bolton Jaguar in Lancashire. This franchise is set to see a significant new product flow in the next few years following significant product development investment by Jaguar Land Rover. The Group is delighted therefore to be able to partner with this exciting British brand.

In July 2013 the Group acquired two Volkswagen dealerships in Lincoln and Boston followed by a further three in Nottingham and Mansfield in November. The Group's Volkswagen operations are branded Vertu Volkswagen. The addition of this franchise to the portfolio further strengthens the Group's relationship with the Volkswagen Group for whom the Group already represents the SEAT brand. Volkswagen is the third largest franchise by market share in the UK and its success is underpinned by its investment in a wide range of new products and iconic models such as the Golf, which always features in the Top 10 bestselling new car models in the UK. The Group also opened a fifth SEAT dealership in Birmingham in July 2013 and acquired a Volkswagen Group centralised trade parts operation along with the Nottingham acquisition in November.

Volvo was a further new premium franchise added to the Group's portfolio during the year, with the opening of Derby in March 2013 followed by the acquisition of Sheffield Volvo in February 2014. Volvo has a very loyal customer base and the highly successful XC90 is due to see a new model launch in early 2015.

The addition of these new franchises to the Group's portfolio demonstrates manufacturers' confidence in the Group's capabilities and prospects and reflects the Board's strategy of broadening the Group's portfolio.

The Group expanded its Nissan operations with the opening of a newly developed Northampton Nissan dealership in July 2013 and the acquisition of Sheffield Nissan in February 2014. With nine outlets, the Group is now one of Nissan's largest UK partners. Further expansion with the Hyundai franchise came with the acquisition of two dealerships in Edinburgh in December (taking the total number of Group dealerships in Scotland to nine). The Group is now Hyundai's most significant UK partner in terms of outlets.

In June 2013 the Group sold its loss making Iveco heavy truck operations in Bristol, Swindon and Gloucester, generating £1.9m of cash. This disposal means the Group can focus on its core activities of car and light commercial vehicle franchised dealership operations. Further disposals of dealerships may arise from time to time, particularly as part of wider franchising strategies in agreement with our manufacturer partners.

Digital environment

The automotive retail sector is increasingly characterised by the need for significant physical property requirements to be matched by on-line assets. The Group has invested heavily in its digital resources and designs and creates all on-line assets in-house through a team of dedicated web designers and software programmers. This allows constant innovation to be undertaken quickly as the digital competitive environment develops.

The Group operates a significant number of websites in a webfarm centred round bristolstreet.co.uk as its core trading brand. In terms of website visits, the Group outperforms against its peers generating the third highest level of visits in the automotive retail franchised sector in 2013 (Source: Hitwise). The Group recently launched a redesigned bristolstreet.co.uk website to enhance the digital customer experience. The design was extensively tested by an independent agency using qualitative consumer research. The redesign includes important enhancements to the on-line service booking functionality, which is an increasingly used method for customers to book their service and MOT and significant use of video content.

In terms of vehicle sales, the Group directly sold 11,410 vehicles (2013: 9,131) from email and phone leads from its on-line assets. All such enquiries are centralised in a contact centre which is open 7 days a week with extended hours. The importance of the internet for sales generation and customer research is now self-evident.

Reflecting the Group's expertise in the digital space, the Group has entered into a partnership with Haymarket Media Group to jointly operate 'What Car Leasing'. Using an existing Group platform, which has now been rebranded, this offering allows non-Group franchised dealerships to advertise on a regional and franchise basis on the What Car Leasing platform for a monthly fee in exchange for sales leads for new cars on personal contract hire contracts. Since its launch in November 2013, customer enquiry levels have increased by 234% and monthly revenues have increased by 19%. The Group continues to invest in new initiatives to exploit digital channels which may provide incremental revenue streams in the future.

Group marketing activities are also reflective of the digital revolution. Email marketing, pay for click campaigns and search engine optimisation are all now as core to the Group as traditional press and radio campaigns. An example of innovation is the recent expansion of traditional radio adverts by the Group into the Spotify platform to seek out new customers who have moved away from traditional media.

Within the dealership environment, it is clear that the customer will expect a seamless transition from the on-line experience to that in the showroom. Over the coming months, the showroom experience will be enhanced with greater use of technology to highlight vehicle features and also to guide customers through the sales process.

Operating review

Revenue in the year increased by 33.8% (£425.2m) to £1,684.5m (2013: £1,259.3m). This reflected the impact of acquisitions made during the year (£134.6m) and the full year impact of prior year acquisitions (£177.9m). Closed operations resulted in reduced year on year turnover of £35.9m. Like-for-like revenues grew by 13.1% (£148.6m) reflecting higher volumes of vehicle sales and growth in service, parts and accident repair centre activities. The Group delivered close to 120,000 new and used vehicles in the year.

Market conditions in new vehicle sales continued their strong run of improvement throughout the year driven by an improving consumer environment in the UK and a consistent flow of excellent new products and attractive consumer finance offers from manufacturers. The majority of new vehicles sold in the UK are supplied by the European sales operations of global manufacturers who are also responsible for making sales into Continental Europe. These operations have continued to face demand shortfalls due to the continuing economic challenges of the Eurozone. Whilst the last six months have seen some Continental markets rise, there still remains significant manufacturing overcapacity. Manufacturers continue to

Operating review (continued)

push supply into the UK which has both a well-developed retail distribution network and a significantly stronger consumer and overall economic environment than the rest of Europe. The relative strength of Sterling in much of the reporting period also aided these product flows by providing enhanced margin possibilities to European manufacturers allowing them to use the margin to provide incentives to UK consumers to buy new cars. Enhanced fuel efficiency, low rate finance deals and affordable service plan packages are all contributing to a lowering of the cost of motoring in the UK. A recent Neilsen survey indicated that an increasing percentage of UK consumers are planning to change their car in the coming months driven by affordability in the market. As a result of these factors the UK private retail market rose 15.0% in the financial year. In a reversal of the trend in recent years volume franchises outperformed premium franchises in the UK private retail sector, with registrations up 17.2% in volume franchises and 11.4% in premium franchises. This favoured the portfolio mix of the Group.

Overall gross margin fell slightly to 11.4% (2013: 11.8%) due to the increase in the mix of vehicle sales which outstripped the growth in higher margin aftersales operations in the period. Overall vehicle revenues grew by 35.7% in the year and amounted to 91.3% of total revenues (2013: 89.9%), whereas total aftersales revenues grew by 16.1% and amounted to 8.7% of total revenues (2013: 10.1%).

Revenue mix

	2014 £'m	2013 £'m	*2014 Mix*	*2013 Mix*
Vehicle sales	1,537.4	1,132.5	91.3	89.9
Aftersales	147.1	126.8	8.7	10.1
Total revenue	**1,684.5**	**1,259.3**	**100.0**	**100.0**

Adjusted[1] EBITDA increased by 77.4% to £23.6.m in the year ended 28 February 2014 (2013: £13.3m). The adjusted operating profit grew by 96.7% to 17.9m (2013: £9.1m) due to both like-for-like growth in the core dealerships, and crucially the turnaround in profitability of the dealerships acquired over recent years. This improvement provides further evidence of the effectiveness of the Group's business model in improving the profitability of underperforming businesses acquired. The results were also boosted by adjusted[1] operating profits of £2.0m (2013: Loss £1.6m) relating to acquisitions made in the current year, the most significant of which was the Farnell acquisition. Adjusted[1] profit before tax rose by 116% to £17.5m (2013: £8.1m).

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

Vehicle unit sales analysis

	2014 Core	2014 Acquired[2]	2014 Total	2013 Total[3]	Like-for-Like % Variance	Total % Variance
New retail cars	25,593	5,032	30,625	21,604	19.7	41.8
Motability cars	7,635	1,112	8,747	7,769	(1.0)	12.6
Fleet and commercial vehicles	23,094	2,666	25,760	20,444	17.1	26.0
Total New vehicles	**56,322**	**8,810**	**65,132**	**49,817**	**15.3**	**30.7**
Used retail vehicles	46,374	8,037	54,411	44,815	7.1	21.4
	102,696	**16,847**	**119,543**	**94,632**	**11.5**	**26.3**

2. relates to businesses acquired or developed subsequent to 1 March 2013 with businesses migrating into core once they have been in the Group for over 12 months
3. 2013 volumes include businesses acquired in the year ended 28 February 2013

Operating review (continued)

Revenue and Margins

	Year ended 28 February 2014			Year ended 28 February 2013		
	Revenue	**Revenue**	**Gross Margin**	**Revenue**	**Revenue**	**Gross Margin**
	£'m	**%**	**%**	**£'m**	**%**	**%**
New car retail and Motability	534.4	31.7	7.6	384.6	30.5	7.4
New fleet and commercial	420.4	25.0	2.4	316.0	25.1	2.3
Used cars	582.6	34.6	10.8	431.9	34.3	11.3
Aftersales[4]	147.1	8.7	43.1[4]	126.8	10.1	41.4[4]
	1,684.5	**100.0**	**11.4**	**1,259.3**	**100.0**	**11.8**

4. margin in aftersales expressed on internal and external turnover. Prior year margin restated due to reallocation of parts drivers' costs. The impact of the restatement improves the prior year aftersales margin by 0.6%.

Vehicle sales

New retail car volumes sold (excluding Motability Scheme sales) rose by 19.7% in the year on a like-for-like basis. This compared to an increase of 15.0% in UK private new car registrations and 17.0% for those franchises which the Group represents. The Group's operations performed strongly in the period, delivering above national average market penetration of new car sales for our manufacturer partners in the majority of the Group's dealerships. Volumes of sales on the Motability Scheme fell 1% on a like-for-like basis as the sales teams focused on the higher profit retail sales opportunity. Sales team resource levels have been reviewed in the light of continued market growth and they are being increased in many dealerships to ensure the Group maximises both retail and Motability sales in an environment of more robust overall demand levels than seen in previous years. Gross margin percentages in new retail and Motability car sales strengthened to 7.6% (2013: 7.4%) reflecting the increasing mix towards higher margin new retail sales compared to Motability sales.

New car fleet registrations in the UK rose by 5.6% in the year while the Group saw like-for-like car fleet volumes rise by 9.5%. The Group has significant fleet operations making, for the first time, over 25,000 car and van deliveries during the year. The Group has invested heavily in recent years in local business specialists in many dealerships to penetrate the higher margin, local SME fleet opportunity. These specialists are now maturing and delivering enhanced market shares so helping the Group gain overall market share in the car fleet sector and to enhance overall margins.

The commercial vehicle market, comprising light and heavy vehicles, saw strengthening demand throughout the year as the economic recovery has continued. UK market registrations rose by 15.1%, as a consequence, with the Group's like-for-like volumes of commercial vehicles increasing by 29.2% during the year reflecting significant market share gains. The Group's margins in fleet and commercial sales improved to 2.4% (2013: 2.3%) with the increased numbers of dealership based local business specialists helping to deliver these gains in volume and margin. In addition, acquisitions undertaken in recent years have enriched the mix of fleet business undertaken.

The Group's used vehicle volumes grew by 21.4% in total and by 7.1% on a like-for-like basis. The UK used car market was reported to be stable during the year with constrained supply resulting in stable prices and margins. Given the strong growth in the new car market driven by the availability of highly competitive new car finance offers, there has been an element of substitution of used car demand into new car business, as evidenced by the Group's ratio of used cars sold to new retail cars sold for the year which stood at 1.8 (2013: 2.0). The Group's like-for-like used car margin percentage increased from 11.7% to 12.0% reflecting continued improvements in dealership performances from previous year acquisitions and strong profits on disposal of part exchanged vehicles in auctions, reflecting favourable market conditions. Total used car margin percentage fell to 10.8% (2013: 11.3%) due to the impact of higher

Operating review (continued)

Vehicle sales (continued)

selling prices in the Group's recently acquired Volkswagen and Land Rover dealerships and poorer returns in newly acquired dealerships. The Group strengthened its total used car gross profit per unit to £1,161 (2013: £1,089).

The Group's success in the sales arena is underpinned by its investment in the sales teams. The sales process of the Group is backed up by a bespoke, internally developed showroom system tailored to the Group's processes. A significant amount of in-house training is undertaken to ensure all managers and sales colleagues fully understand the process and have the required customer focused skills to ensure an outstanding customer experience is delivered. The Group undertakes over 200 mystery shops each month across every sales channel to ensure that the processes are followed and the customers' needs are identified and met. These mystery shops comprise physical visits, website visits, live chat enquiries and telephone enquiries covering cars, vans, electric and wheelchair accessible vehicles. Further developments are underway to deliver greater sales such as the development of a new contact centre to undertake follow up calls to customers who have visited a dealership and did not purchase. Pilots undertaken have indicated that such calls will increase customer experience levels and sales conversion.

Aftersales

The Group's aftersales operations, which comprise servicing, supply of parts and accident repairs, represent a vital element of the Group's business model since significantly higher returns are generated than those achieved in vehicle sales. The strategy of the Group is to increase customer retention in the higher margin service arena through the consistent execution of a number of core strategies. Driving service revenues has an additional positive benefit in enhancing parts sales through the Group's workshops. Core retention strategies include a focus on driving increased vehicle sales to build a local vehicle parc (as opposed to distance sales), marketing via a sophisticated customer relationship management process using the Group's dedicated contact centre in Gateshead and technology such as email reminders and on-line service booking facilities. Further retention is driven through the extensive sale of service plans and delivering an outstanding customer experience, for example, committing to wash and vacuum every vehicle during every visit to a service department.

The Group continues to make progress in all these areas. For example, the Group now has over 55,000 customers paying monthly for service and MOT (where appropriate) via the Group's three year service plan product. In addition, significant numbers of service plans operated by manufacturers have also been sold. These plans are helping the Group to take market share from the independent aftersales market in the service area. The proportion of vehicles serviced by the Group over five years old, for example, has increased from 25.5% in 2011 to 31.5% in 2014 and these cars traditionally would have been serviced by the independent sector. This demonstrates that the Group's continuing efforts to expand retail service sales away from the typical franchised dealer's core servicing market of the first three years of a new vehicle's ownership (typically covered by the manufacturer's warranty period) are proving to be successful.

Linked to customer retention, the Group has an extensive programme to improve customer satisfaction which is reinforced as very much part of Vertu's culture and linked to remuneration structures including those of executive directors. The Group's Mission Statement is "to deliver an outstanding customer motoring experience through honesty and trust" and this is what management and colleagues strive to do. Around 70% of service and sales departments are above national average scores as measured by the Group's manufacturer partners and targets are in place to improve on this.

The Group saw like-for-like revenues in all aftersales activities increase by 4.3% and like-for-like gross profits grow by £3.8m in the period. Service revenues rose 6.8% on a like-for-like basis year on year, representing the fourth successive year of growth. Overall aftersales

Operating review (continued)

margins strengthened to 43.1% (2013: 41.4%) principally due to higher efficiency levels in the service operations as volume rose. The increased car parc of Vertu supplied cars following a strong year of both new and used vehicle sales augurs well for the future of the Vertu aftersales business.

The accident repair centre sector stabilised during the year after a period of contraction in both demand and centres in the sector. There is increasing evidence that capacity reductions have led to a greater balance in supply and demand in the sector. The Group's accident repair centre revenues grew 5.6% on a like-for-like basis and margins improved to 65.0% (2013: 64.4%). Significant progress is being made in increasing paint margins due to better measurement and monitoring of paint usage via technology. Further operational improvements are being sought with intensive training programmes in place to focus on revenue generation and margin enhancement. Two new accident repair centres were added to the Group in the year by acquisition, bringing the total operated by the Group to nine.

Supply of manufacturer parts continues to be a vital part of the franchised dealer model. Parts revenues rose 3.4% on a like-for-like basis with a 3.0% increase in departmental gross profitability. Parts represents 27% of total aftersales gross profitability. As the Group's service and accident repair centres increase volumes there is a natural flow through into higher parts sales. In addition, the Group is a significant distributer of parts to other businesses such as independent repairers and external accident repair centres. Working closely with our manufacturer partners, the Group is benefiting from a number of initiatives driven by manufacturers to consolidate the number of franchised dealerships undertaking parts supply to businesses and to create lean stocking arrangements. Increasingly, smart and lean parts ordering and management systems are being utilised in franchised operations where obsolescence management and risk is transferred to the manufacturer rather than the retailer. This combined with consolidation into larger, specialised operations has the capacity to increase revenues in the medium term.

Robert Forrester
Chief Executive

Operating expenses

Automotive retail in the UK is a highly competitive business. Strong cost control disciplines are essential both to achieve the benefits of operational gearing from growing sales activity in the core Group, and in the turning round of an underperforming business acquired by the Group. Costs are benchmarked on a monthly basis for every dealership against internal benchmarks and recognised industry key performance indicators to identify opportunities for profit improvement. In addition, our central purchasing function has continued to pursue and achieve savings and efficiencies in the procurement of all goods and services not-for-resale to ensure that scale economics are maximised without compromising on the customer experience.

Operating expenses rose from £139.9m to £174.3m reflecting the increasing size of the Group. Continuing operating expenses as a percentage of revenues reduced to 10.4% (2013: 11.1%) delivering operational gearing benefits and enhancing overall profitability and return levels. Underlying operating expenses rose £9.7m (7.8%) year on year. 60% of this increase relates to employment costs due to:

- increased commissions and other variable incentives payable as a result of improved profitability at department, dealership and Group level;
- increases in vehicle sales departments' headcount to ensure the Group takes full advantage of higher sales levels; and
- further investment in contact centres and other central functions to support the Group's growth.

The Group, in line with other retailers, also continues to see increased occupancy costs (such as energy, rates and rents). In addition, acquisition related costs amounting to £0.9m have been expensed during the year and depreciation increased from £4.1m to £5.7m due to the impact of new businesses acquired or started during the last two years and a review of the carrying value of leasehold improvements.

Interest charges

Net finance costs in the period decreased by £0.7m to £0.4m (2013: £1.1m) due to lower bank interest payable and a reduction in new vehicle stocking interest charges as set out in the table below. The lower bank interest payable is a consequence of the placing of new ordinary shares in the Company in June 2013, which raised gross proceeds of £50.0m. Of this amount £31.0m was paid as consideration for the Farnell acquisition, and the balance was retained to finance further acquisitions. New vehicle stocking interest charges reduced by £0.3m and a net stocking interest credit arose in the period of £0.1m due to the impact of stocking credits provided by manufacturers to fund future interest charges not being fully offset by those interest charges. This arose due to the enhanced stock turn of new vehicles as the market accelerated and stockholding periods reduced.

	Year ended 28 February 2014	**Year ended 28 February 2013**
	£'m	**£'m**
Bank interest payable	0.7	1.0
New vehicle stocking interest (credit) charges	(0.1)	0.2
Pension fund: net interest cost	(0.2)	(0.1)
	0.4	**1.1**

Exceptional charges

An exceptional asset impairment charge of £1.2m has been recognised following a re-appraisal of the carrying values of certain Group properties which are surplus and no longer used in dealership activities. One of these properties was sold post 28 February 2014 realising cash proceeds of £0.6m and the Group has signed a number of contracts, subject to planning and other conditions, on four of the five remaining surplus freehold properties. The net book value of these surplus property assets at 28 February 2014 was £5.1m.

Taxation

The effective rate of tax for the year was 21.5% (2013: 22.6%). The current year rate is slightly below the standard UK corporation tax rate of 23% for the period and the Board expects that the Group's tax rate should remain close to the headline UK Corporation Tax rate in the future. The Group is clearly benefitting from the low tax environment created by the UK Government.

Cashflows and capital expenditure

The Group's net cash at 28 February 2014 was £31.4m (2013: net debt of £6.2m).

The Group continues to be highly cash generative with an operating cash inflow of £47.4m (2013: £13.0m) in the financial year. This includes cash of £23.8m generated from working capital. £6.7m of this is due to the Group reducing the amount of working capital required to finance businesses acquired during the period. Several businesses were acquired without debtors or creditors in their opening balance sheets and in the long run creditors will more than offset debtors. The Group investment in the acquired businesses will be significantly below the actual purchase consideration paid thereby enhancing shareholder returns through reducing the long run enterprise value of the acquisitions. Accelerated receipts from manufacturers and consumer finance partners amounted to £7.2m during the year and increases in vehicle deposits from customers placing advance orders amounted to £3.3m. Increases in cash received for service plans and warranties sold amounted to £3.6m, and increases in other creditors as the Group has grown amounted to £3.0m.

The Group invested £54.0m in the period comprising £43.9m in acquiring new businesses and new freehold land and buildings and a further £9.6m in capital expenditure related to property refurbishments and developments to enhance retail environments and to increase the productive capacity of the Group. For example, two new freehold dealerships were built and opened in the period being Northampton Nissan and Harrogate Vauxhall. Dealerships operated by the Group are maintained to a high standard to deliver excellent representation to our manufacturer partners. Over the coming year the Group is planning to make further significant investments in its property portfolio in order to ensure that it meets evolving manufacturer franchise requirements and increases capacity. Enhanced retail environments are required to cater for enlarged model ranges within showrooms and the integration of digital and physical experiences into a blended retail space. The purchase of a vehicle is increasingly becoming an "experience" as opposed to a mere transaction.

The sale of the Group's heavy truck operation in May 2013 generated £1.9m of cash inflow.

Financial Position

The Group has a strong balance sheet with shareholders' funds of £163.4m (2013: £106.6m), representing net assets per share of 48.5p (2013: 53.3p). Tangible net assets per share were 36.9p (2013: 43.7p). These two measures have declined due to the increase in the number of shares in issue (68.3%) following the Placing in June 2013 and other share issuances. The balance sheet is underpinned by a freehold and long leasehold property portfolio of £105.6m (2013: £93.7m).

The Board continues to seek to balance those dealerships in freehold and leasehold premises and to be conservative in terms of the lease terms entered into, favouring lease breaks and open market value rent reviews. As at 28 February 2014, freehold locations represented 50%

Financial Position (continued)

of locations (2013: 47%). During the year the Group took the opportunity to purchase the freehold properties of two of the Group's leasehold dealerships for £4.5m, further strengthening the property underpinning of the Group.

The Group finances its operations by a mixture of shareholders' equity, bank borrowings and trade credit from suppliers and manufacturer partners. The Group has in place a bank loan of £5.5m repayable on an amortising basis by October 2015, and an acquisition facility of £15.0m available until September 2016 which was undrawn at 28 February 2014. Interest is payable on these facilities at LIBOR plus 2.25% and LIBOR plus 1.70% respectively. During the period, the Group comfortably complied with all of the financial covenants in respect of these borrowings, which include loan to value, net debt to EBITDA and interest and lease costs to EBITDAR.

In addition to these loan facilities, the Group has £30m of overdraft and other money market facilities with Barclays Bank. On the overdraft, interest was paid on drawn amounts at 1.5% above Base Rate, and on the money market facilities interest was paid at 1.35% above LIBOR. These facilities are available until the next review date of 30 April 2015. The Group operated with cash balances for much of the year and these additional facilities are utilised to fund significant peak working capital requirements following plate change months. As at 28 February 2014, the Group had cash balances of £36.9m (2013: £7.2m) and, as a consequence, net cash of £31.4m (2013: net debt of £6.2m). The cash position at 28 February 2014 reflects the seasonal reduction in working capital, typical of the industry, which arises at the month end prior to a plate change month. Consequently, the year-end cash position is higher than the normalised cash balances throughout the remainder of the year by approximately £15m. The Group's cash balances, on-going cash generation and the acquisition loan facility, will be used to fund the Group's on-going acquisition strategy.

Pensions

The Bristol Street defined benefit pension scheme, which is accounted for on the basis of IAS 19 (revised), showed a surplus as at 28 February 2014 of £3.1m (2013: £4.2m). During the year, and in line with the funding programme agreed with the Trustees in 2010, the Group made cash contributions to the scheme of £0.4m (2013: £0.4m). This scheme is closed to future membership and accrual. The impact on the Group's reported results of the adoption of IAS19 (revised), the accounting standard for pensions which was implemented during the year resulted in a reduction in the 2013 profit before tax of £0.1m. Prior year comparatives have been restated for the impact of this accounting change.

Post balance sheet events

On 7 March 2014 the Group disposed of a disused property at Haydn Road, Nottingham for cash proceeds of £600,000. The net book value of the asset at the date of disposal was £600,000 following an exceptional impairment charge of £300,000 in respect of this property, included within total exceptional charges of £1.2m in the year to 28 February 2014. Therefore there was no profit or loss on disposal post year end.

On 6 May 2014 the Group announced that it had acquired the entire share capital of Hillendale Group Limited, which operates a Land Rover dealership in Burnley, Lancashire and a Jaguar dealership in Bolton, Lancashire for an estimated consideration of £8.2m. The consideration included £2m of shares issued at 58.64p with the remainder met from the Group's existing cash resources.

Michael Sherwin
Finance Director

Main Board Directors

The Board currently comprises the Directors outlined below.

Paul Williams – Non-Executive Chairman

Paul (67) was Chief Executive of Bristol Street Group Limited until its acquisition by Vertu Motors plc. Paul has over thirty years of motor retail experience and is well respected in the motor retail sector. This was reflected by his previous roles as Chairman of the National Franchised Dealer Association (NFDA) and the Retail Motor Industry Federation (RMIF).

William Teasdale – Non-Executive Director

Bill (71) is a non-executive director of a number of private companies including British Engines Limited and Bedmax Limited. He was non-executive Director and Chairman of the Audit Committee at Reg Vardy plc between 2002 and 2006. Prior to this he was the Senior Partner at the Newcastle upon Tyne office of PricewaterhouseCoopers LLP. Bill has substantial experience of corporate transactions and within the quoted company environment.

David Forbes – Non-Executive Director

David (54) is a former Managing Director at Rothschild where he has developed his career over 22 years. Prior to that he qualified as a Chartered Accountant in 1984 and worked for a number of organisations in corporate finance roles. His areas of expertise include mergers, acquisitions, corporate strategy and corporate finance, involving both debt and equity. His other non-executive appointments include non-executive directorships at Codex Global, Renew Holdings plc and Boohoo.com.

Nigel Stead - Non-Executive Director

Nigel (64) was previously CEO of Lex Autolease, the UK's largest contract hire and leasing group and a Director of the British Vehicle Rental and Leasing Association. He has also been a Non-Executive Director of Motability Operations Group plc and Universal Salvage plc. Nigel is currently a Non-Executive Director of Prohire plc and Merrion Fleet Management Limited.

Robert Forrester – Chief Executive

Robert (44) was a Director of Reg Vardy plc between 2001 and 2006 where he held the roles of Finance Director and Managing Director. Robert qualified as a chartered accountant with Arthur Andersen. He is also a member of the Economic Affairs Committee of the Confederation of British Industry and on the Investment committee of St Hugh's College, Oxford.

Michael Sherwin – Finance Director

Michael (55) 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.

Advisors

Nominated Advisor and Broker

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Solicitors

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Chartered Accountants and Statutory Auditors
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Tax Advisors

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Registrars

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Company Secretary and Registered Office

Karen Anderson
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Broker

Liberum Capital Limited
Ropemaker Place
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Corporate and Social Responsibility Report

Introduction

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

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

1. Health and Safety

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

A consistent Group-wide approach is taken with regards to Health and Safety and Environmental matters. The Health and Safety policy laid down by the Board in 2007 provides the core framework for our standard processes. This policy is regularly reviewed and updated if required. All managers within the business receive Health and Safety 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 responsible for; monitoring compliance with Health and Safety systems, providing support and advice to the General Managers, monitoring and auditing the effectiveness of Health and Safety training across the business, as well as continually assessing the quality of our systems, outputs and recommending improvements. The Health and Safety Manager also reports monthly to the plc Board, and key findings are communicated to senior and general managers to retain a focus on Health and Safety matters.

2. Environmental Management

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

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

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

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

2. Environmental Management (continued)

This year the Group has continued to increase the volume of recycled waste. Currently 70% of dry waste (improved from 59%) is recycled and the Board has set a further target of 80% to be achieved in the next 12 months. Our aim is to maximise recycling revenue opportunities through waste streams such as waste oil and scrap metal with a view to using this income to neutralise any costs associated with dry mixed recycling and landfill.

Vertu Motors plc is a registered participant of the Carbon Reduction Commitment (CRC) scheme operated by the Environment Agency. All data submissions and declarations are completed in accordance with the CRC Scheme rules. Vertu Motors plc is committed to energy usage reduction and actively monitors energy usage. All sites are fitted with Automatic Meter Readers (AMRs) and the Group monitors usage in half hourly segments. This year we have set ambitious energy usage reduction targets, of 20% (measured against 2013 usage metrics). These will be achieved through combination of on-site dealership audit, action plans and training and the introduction of energy efficient plant into our new builds and refurbishments. Building and plant efficiency is a core element of our new build and major refurbishment planning. This year we commenced installation of photo voltaic solar panels on our new build projects, this includes our new Northampton Vauxhall dealership.

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

3. Colleagues

The Group seeks to fulfil the career aspirations and potential of all colleagues. The Board seeks that every colleague enjoys coming to work, feels motivated in everything that they do and takes pride in their contribution to the Group. The enthusiasm and dedication of colleagues is a vital factor in the Group's success. In order to develop a culture that is positive and contributes to the Group performance, a number of core values are used extensively in the business to signpost desired behaviours. These are set out below:

- **Values**
  - **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.
- 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, sexual orientation, age, ethnic origin, religion or disability (except when there is a genuine occupational requirement). The principle of equality also applies to career development opportunities and training.

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

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

- **Communication**

The Group is committed to providing colleagues with information on matters of concern to them on a regular basis. Whilst individual achievement is always recognised, good teamwork is at the core of the business. At the heart of this is good communication. The Group utilises many formal and informal channels to achieve this, for example, the Chief Executive produces a regular 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.

3. Colleagues (continued)

- **Communication (continued)**

The Group operate several award schemes covering all colleagues. These schemes are intended to recognise and reward talented and committed individuals throughout the Group. For example, the CEO Awards are announced each December whereby eight managers are recognised for their performance. The Group also launched in 2011 a Masters' Club whereby 27 high performing non-management colleagues are recognised for their performance. The recipients range from sales executives, service advisors and technicians to drivers and receptionists. These awards programmes are designed to reward and reinforce behaviours underpinning both Group financial performance and other strategic objectives such as the delivery of an outstanding customer experience.

4. Vertu in the Community

The scope of our involvement in the community includes charity support and community sponsorship.

- **Charity Support and Sponsorship**

The Group is proud to work with a diverse and broad range of national charities and local projects. Over the past four years we have raised over £100,000. This year the Group supported the following charities:

- BEN (Motor and Allied Trades Benevolent Fund)
- Children in Need

- **Community Support**

As the Group has expanded so has the scope of the Group's involvement in the community as part of our wider corporate and social responsibility strategy. The projects chosen to be supported reflect the diversity and depth within the business and the desire of colleagues to be an active part of the communities the dealerships serve. Our community support initiatives include Dunston Silver Band, local youth sports clubs, George Salter's Sports Academy West Bromwich and Solihull Barons ice hockey team.

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 2014.

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.

Results and Dividends

The results for the year are set out in the consolidated income statement on page 46. The Group's profit from ordinary activities after taxation for the year was £12,428,000 (2013: £3,389,000 (as restated (note1)).

The dividend paid in the year to 28 February 2014 was £2,526,000 (0.75p per share) (2013: £1,296,000 (0.65p per share)). A final dividend in respect of the year ended 28 February 2014 of 0.5p per share, is to be proposed at the annual general meeting on 24 July 2014. The ex dividend date will be 25 June 2014 and the associated record date 27 June 2014. The dividend will be paid on 29 July 2014, and these financial statements do not reflect this final dividend payable.

Company Number

The registered number of the Company is 5984855.

Directors and Their Interests

Brief particulars of the Directors are listed on page 17. Further details of the Board composition are contained in the Corporate Governance Report and details of Directors' service contracts are contained in the Remuneration Committee Report. The Directors who served during the year ended 28 February 2014 and up to the date of signing the financial statements were:

P R Williams
R T Forrester
M Sherwin
W M Teasdale
D M Forbes
N Stead

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

Directors’ Report (continued)

Directors and Their Interests (continued)

The Directors who held office at 28 February 2014 and their connected persons had interests in the issued share capital of the Company as at 28 February 2014 as follows:

	28 February 2014 Ordinary Shares	28 February 2013 Ordinary Shares
P R Williams	2,827,485	2,827,485
R T Forrester	6,545,204	6,364,762
M Sherwin	327,988	201,371
D M Forbes	352,600	300,000
W M Teasdale	616,450	563,850
N Stead	56,500	30,000

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

Derivatives and Financial Instruments

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

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

The Group has ensured continuity of funding by entering into a five year funding agreement with Barclays Bank on 15 October 2010, comprising a £10m term loan repayable over 5 years. On 27 February 2013 a £15m revolving credit facility was renewed and extended to 30 September 2016. Short-term flexibility is achieved through the Group’s overdraft and short term committed money market loan facilities. These annual facilities were renewed on 30 April 2014. At 28 February 2014 the Group held an interest rate hedge in respect of the outstanding term loan.

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

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 19 to 22.

Health and Safety

The policies of the Group on health and safety, as well as goals and controls in place are set out in the Corporate and Social Responsibility Report on pages 19 to 22.

Directors' statement as to 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;and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable the Group and 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

Statement of Directors' Responsibilities (continued)

- the Directors' and Strategic Reports include 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
7 May 2014

Corporate Governance Report

The UK Corporate Governance Code

As an AIM listed Company, Vertu Motors plc does not have to comply with the UK Corporate Governance Code (2012) (the 'Code') published by the Financial Reporting Council. However, the Board embraces the principles of good corporate governance.

Although the Group does not chose to voluntarily comply with the code in full, the following statements describe how the relevant principles and provisions set out in the Code were applied to the Company and Group during the financial year and will continue to be relevant for the forthcoming financial year.

Board of Directors

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

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

A Chief Executive's Committee comprising the executive Directors and seven 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 thirteen 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	13	2	2	1
P R Williams	11	-	2	1
R T Forrester	13	-	-	-
W M Teasdale	12	2	2	1
D M Forbes	13	1	2	1
M Sherwin	13	-	-	-
N Stead	12	1	2	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 both financial and non-financial.

Board of Directors (continued)

All Directors appointed by the Board must retire and seek election at the first Annual General Meeting following their appointment. One third of the other Directors are then required to retire and submit themselves for re-election each year so that all Directors are required to retire and submit themselves for re-election at least once in every three years. R T Forrester and N Stead are to retire and submit themselves for re-election by rotation at the 2014 Annual General Meeting. The Board is satisfied that plans are in place for orderly succession for appointments to the Board and senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

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

The Audit Committee

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

Remuneration Committee

The Remuneration Committee consists of the four non-executive Directors (D M Forbes as Chairman, P R Williams, W M Teasdale and N Stead). The Committee met twice in the last financial year with D M Forbes 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 Committee Report and Directors' Remuneration Reports.

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.

Nominations Committee

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

Pension Trustees

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

Relations with Shareholders

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

All shareholders have at least 21 clear days’ notice of the Annual General Meeting at which all of the Directors are normally available for questions. The Directors believe the Annual General Meeting is an important opportunity for communication with both institutional and private investors and invite questions from shareholders at the meeting. In accordance with the Code 2012, details of proxy voting on resolutions are available to shareholders during and after the Annual General Meeting.

Internal Controls

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

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

The internal controls system is designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives and can, therefore, only provide reasonable, rather than absolute, assurance against material misstatement or loss. The Directors regularly review the risks to which the Group is exposed, as well as the operation and effectiveness of the system of internal controls. Key features of the internal control system, which have been in place throughout the year and to the date of this report are:

- Board of Directors

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

- Mission Statement and Values

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

Corporate Governance Report (continued)

Internal Controls (continued)

- Audit Committee

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

- Risk Champions

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

- Chief Executive’s Committee

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

- Policies and Procedures

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

- Financial Reporting

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

The Board takes a proactive approach to the management of all forms of risk, and views risk management as a vital constituent of its commitment to provide value protection and growth for its various stakeholders.

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

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

Going concern

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

The projections assume that profits earned from new and used car sales will remain stable throughout 2014/15; the aftersales business and recent acquisitions will continue to show growth; UK interest rates will remain static at current rates; manufacturer partners will remain in production and supply on normal terms of trade, and there will be no significant downturn in the global economic environment.

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

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

Independence of the Independent Auditors

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

- Statutory audit services

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

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

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

- Other non-audit services

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

By order of the Board

Karen Anderson
Company Secretary
7 May 2014

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Introduction

On behalf of your Board, I am pleased to present our Directors' Remuneration Report for the year ended 28th February 2014. This Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee (the Committee) in accordance with the spirit and, as far as is reasonably practical, the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, notwithstanding that, as the Company is listed on AIM, these regulations do not strictly apply. This report is split into two sections;

- the directors' remuneration policy sets out the Company's intended policy on directors' remuneration from 1 March 2014.
- the annual report on remuneration sets out payments and awards made to the directors and details the link between Company performance and remuneration for the year to 28 February 2014 and is subject to an advisory shareholder vote at this year's AGM.

The information in the Directors' Remuneration Report set out on pages 39 to 43 highlighted as being subject to audit has been audited by the Group's auditors.

Remuneration outcomes for the year to 28 February 2014

Annual bonus opportunities are based on the achievement of adjusted profit before tax targets including adjustments to reflect the contribution from operating units acquired or disposed of during the year. Bonuses of 100% of the maximum have been awarded to the executive directors in respect of the year ended 28 February 2014, which reflects the strong financial results of the Group for the year relative to expectations at the beginning of the financial year.

The long-term incentives awards made to executive directors under the Long Term Incentive Plan ("LTIP") in 2013 may vest in March 2016. These awards took the form of £Nil value share options where the vesting is subject to targets based on the achievement of absolute growth in the Company's total shareholder return ('TSR'), and relative growth in TSR against FTSE small cap index (excluding investment trusts).

Key remuneration decisions for the year to 28 February 2015

In developing the remuneration policy for Executive Directors for the year to 28 February 2015, the Committee considered the form and level of awards to be made under the LTIP. In summary, the Committee decided that these awards will again be £Nil cost share options under the LTIP subject to absolute and relative growth in TSR over the next three years. The level of awards will take account of the strong financial results of the Company relative to expectations at the start of the financial year. Further details are given in the implementation report.

In conclusion

The directors' remuneration policy which follows this annual statement sets out the Committee's principles on remuneration for the future and the annual report on remuneration provides details of remuneration for the year ended 28 February 2014. The Committee will continue to be mindful of shareholder views and interests, and we believe that our directors' remuneration policy continues to be aligned with the achievement of the Company's business objectives. We hope that we can rely on your votes in favour of the annual report on remuneration.
By Order of the Board:

David M. Forbes
Chairman of Remuneration Committee
7 May 2014

REMUNERATION POLICY

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

Future Policy Table

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

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
BASIC SALARY			
Attract and retain high calibre Executive Directors to deliver strategy	Paid in 12 equal monthly instalments during the year	Reviewed annually to reflect role, responsibility performance of the individual and the Group, and to take into account rates of pay for comparable roles in similar companies. When selecting comparators, the Committee has regard to, *inter alia,* the group's revenue, profitability, market worth and business sector. There is no prescribed maximum increase. Annual rates are set out in the annual report on remuneration for the current year and the following year.	None
BENEFITS			
Provide benefits consistent with role	Currently these consist of the option of a company car, or access to an employee car ownership scheme, health insurance, life assurance premiums and the opportunity to join the Company's savings related share option scheme ("SAYE"). The Committee reviews the level of benefit provision from time to time and has the flexibility to add or remove benefits to reflect changes in market practices or the operational needs of the Group.	The cost of providing benefits is borne by the Company and varies from time to time.	None

Future Policy Table (continued)

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
ANNUAL BONUS			
Incentivises achievements of business objectives by providing a reward for performance against annual targets	Paid in cash after the end of the financial year to which it relates	It is the policy of the committee to cap maximum annual bonus. The level of such caps are reviewed annually and are set at an appropriate % of salary.	Targets are based on adjusted profit before tax of the Group, and on the Group's position in manufacturer customer satisfaction indices. The Committee sets threshold and maximum targets on an annual basis. A sliding scale operates between threshold and maximum performance. No bonus is payable where performance is below the threshold. Payment of any bonus is subject to overriding discretion of the Committee.
LONG-TERM INCENTIVES			
Alignment of interests with shareholders by providing long-term incentives delivered in the form of shares	Grant of nil cost options under the LTIP. Options vest at least 3 years from grant subject to the achievement of performance conditions and may not be exercised after 10th anniversary of grant	Maximum permitted annual award of options under the LTIP is 125% of basic salary.	Vesting is subject to targets based on achievement of absolute growth in the Group's total shareholder return ("TSR") and relative growth in TSR against FTSE small cap index (excluding investment trusts).

Future Policy Table (continued)

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
PENSION			
Attract and retain Executive Directors for the long term by providing funding for retirement	All Executive Directors are entitled to participate in money purchase arrangements, or to receive a cash allowance in lieu of pension contributions.	Group makes payments of 16.5% of basic salary into any pension scheme or similar arrangement as the executive may reasonably request. Such payments are not counted for the purposes of determining bonus or LTIP levels.	None

Notes to the Policy Table

Performance conditions

The Committee selected the performance conditions as they are central to the Group's strategy and are the key metrics used by the Executive Directors to oversee the operations of the business. The performance targets for the annual bonus are determined annually by the Committee, with maximum bonus typically requiring a substantial out-performance above the Company's forecasts.

The initial performance target for the annual bonus is based on adjusted profit before tax. This target takes account of both the Group's budget for the year and of the market expectations after taking account of the pre-close update issued at the end of the previous year. For the year ending 28 February 2015 the initial performance target is £19m and is adjusted during the year to reflect the impact of acquisitions and disposals.

The performance target for the LTIP is based on both absolute growth in the Company's total shareholder return ('TSR') and relative growth in the TSR against the FTSE small cap index (excluding investment trusts)

Differences from remuneration policy for all employees

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

Share options are only granted under the LTIP to selected senior executives and above.

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

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

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

Statement of consideration of shareholder views

The Chairman of the Committee consults with major shareholders from time to time or where any significant remuneration changes are proposed to understand their expectations with regard to Executive Directors remuneration and reports back to the Committee. Most recently the Committee consulted with certain major shareholders in relation to the introduction of the LTIP. Any other concerns raised by individual shareholders are also considered, and the Committee also takes into account emerging best practice and guidance from major institutional shareholders. Overall, no significant concerns were raised by the Group's main shareholders in relation to remuneration over the last twelve months.

Approach to recruitment remuneration

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

Any new Executive Director's regular remuneration package would include the same elements and be in line with the policy table set out earlier in this directors' remuneration policy, including the same limits on performance related remuneration.

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

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

Directors' service contracts, notice periods and termination payments

Provision	**Policy**	**Details**
Notice periods in Executive Directors' service contracts	12 months by company or Executive Director	Executive directors may be required to work during the notice period
Compensation for loss of office	No more than 12 months' basic salary and benefits (including company pension contributions).	
Treatment of annual bonus on termination	Bonuses which have already been declared are payable in full. In the event of termination by the Company (except for cause) pro-rated bonus to the end of the notice period is payable at the discretion of the Remuneration Committee.	
Treatment of unvested LTIP awards.	Good leavers may exercise their options within 12 months of cessation. Options of other leavers including those dismissed for fraud, dishonesty or misconduct will lapse.	Good leavers circumstances comprise death, illness, injury, disability, retirement or transfer of employing business outside Group. Performance conditions are waived for good leavers, but the number of options that can be exercised is reduced pro-rata to reflect the proportion of the vesting period completed before cessation.
Exercise of discretion	Intended only to be relied upon to provide flexibility in exceptional or inequitable circumstances.	The Committee's determination will take into account the particular circumstances of the Executive Director's departure and the recent performance of the company
Outside appointments	Subject to approval	Board approval must be sought.
Non-Executive Directors	Re-election	All Non-Executives are subject to re-election every three years. No compensation payable if required to stand down.

Directors' service contracts, notice periods and termination payments (continued)

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

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

Date of service contracts/letters of appointment

DIRECTOR	Date of service contract/ letter of appointment
P. R. Williams	26 February 2007
R. T. Forrester	20 December 2006
M. Sherwin	4 January 2010
N. Stead	8 December 2011
W. M. Teasdale	17 November 2006
D. M. Forbes	10 August 2009

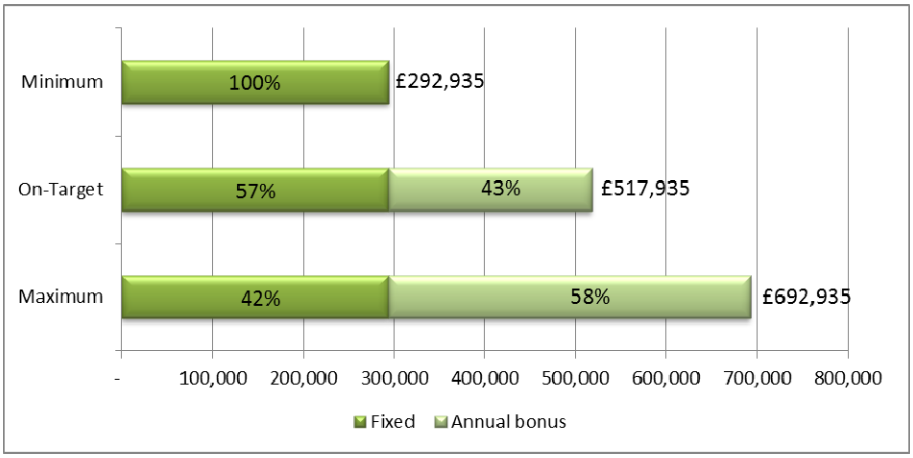
Copies of directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

Total 2014/15 remuneration opportunity

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

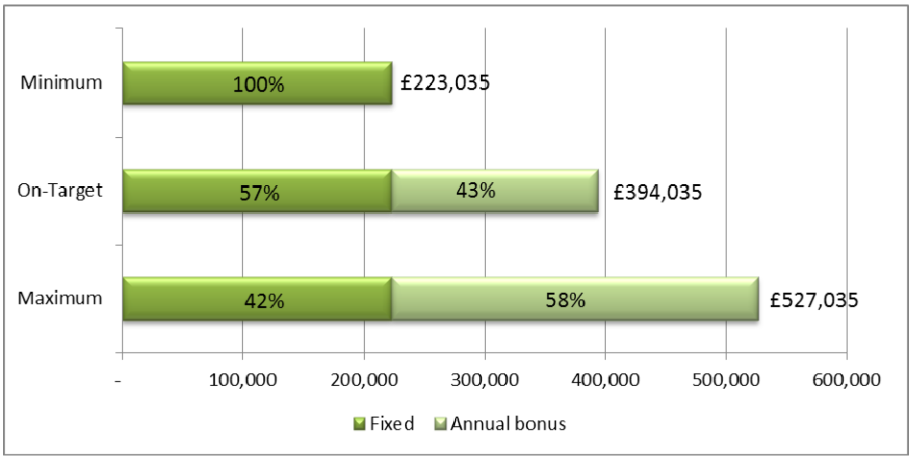
The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable (annual bonus awards); and (iii) Multiple year (LTIP awards) which are set out in the future policy table above. There is no element for multiple year (LTIP Awards) in this table this year as no options (under the LTIP or otherwise) are capable of vesting in the financial year.

R.T. Forrester



Total 2014/15 remuneration opportunity (continued)

M. Sherwin



Each element of remuneration is defined in the table below:

Element	**Description**
Fixed	Base salary for the 2014/15 financial year plus pension and benefits
Annual Bonus	Annual bonus awards based on both adjusted profit before tax and the Group's relative position in Manufacturer customer satisfaction indices.

The on-target scenario assumes that for the annual bonus, adjusted profit is in line with budget and 60% of the Group's sales outlets achieve above national average scores measured by Manufacturer customer satisfaction indices.

Non-executive directors' fee policy

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

Purpose and link to strategy	**Operation**	**Maximum potential value**	**Performance metrics**
NON-EXECUTIVE DIRECTOR FEES ('NED')			
To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy	NED fees are determined by the Board within the limits set out in the Articles of Association Paid in 12 equal monthly instalments during the year.	Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase.	None

Directors' Remuneration Report

Information subject to audit

Single total figure of remuneration

The remuneration of the Directors who served during the period from 1 March 2013 to 28 February 2014 is as follows:

	Basic Salary £'000	**Fees £'000**	**Benefits £'000**	**Annual Bonuses £'000**	**Total £'000**
Executive Directors					
R T Forrester	240	-	7	312	559
M Sherwin	180	-	26	234	440
Total	**420**	**-**	**33**	**546**	**999**
Non-executive Directors					
P R Williams	-	70	-	-	70
D M Forbes	-	35	-	-	35
W M Teasdale	-	50	-	-	50
N Stead	-	35	-	-	35
Total	**-**	**190**	**-**	**-**	**190**
Aggregate directors emoluments	**420**	**190**	**33**	**546**	**1,189**

The remuneration of the Directors who served during the year from 1 March 2012 to 28 February 2013 is as follows:

	Basic Salary £'000	**Fees £'000**	**Benefits £'000**	**Annual Bonuses £'000**	**Total £'000**
Executive Directors					
R T Forrester	240	-	17	260	517
M Sherwin	180	-	6	195	381
Total	**420**	**-**	**23**	**455**	**898**
Non-executive Directors					
P R Williams	-	70	-	-	70
D M Forbes	-	30	-	-	30
W M Teasdale	-	50	-	-	50
N Stead	-	30	-	-	30
Total	**-**	**180**	**-**	**-**	**180**
Aggregate directors emoluments	**420**	**180**	**23**	**455**	**1,078**

The benefits above include items such as company cars, relocation allowance, vehicle insurance cover, medical and life assurance premiums.

Annual bonus

Bonuses are earned by reference to the financial year and paid in May following the end of the financial year. The target adjusted profit before tax (adjusted, inter alia, to reflect the contribution from operating units acquired or disposed of during the financial year) was £12.0m. The bonuses accruing to the Executive directors in respect of the year ended 28 February 2014 are shown below:

	Threshold performance required £'000	**Maximum performance required £'000**	**Actual performance £'000**	**Bonus as a % of salary**			
				R Forrester		**M Sherwin**	
				Max	**Actual**	**Max**	**Actual**
Adjusted profit before tax	11,000	15,500	17,510	130%	130%	130%	130%
Bonus receivable	20%	130%	130%	£312,000[1]		£234,000[1]	

[1] The element of performance bonus based on the position of the Group in Manufacturer customer service leagues did not constrain the payment of bonus at the maximum capped level for the year ended 28 February 2014.

Directors' Pension Entitlements

The Company has paid £39,600 (2013: £39,600) in contributions to the defined contribution Bristol Street Pension Scheme during this financial year in respect of R T Forrester and £29,700 (2013: £27,000) in respect of M Sherwin.

Directors' Share Options

The movement in share options held by the directors during the year ended 28 February 2014 is as follows:

	Number at 1 March 2013	Lapsed in Year	Granted in Year	Number at 28 February 2014
R T Forrester	-	-	285,204	285,204
M Sherwin	600,000	(600,000)	213,904	213,904

Details of share options granted during the year are as follows:

	Scheme	Date of Grant	Earliest Exercise Date	Expiry Date	Exercise price (pence)	Number of options held
R T Forrester	LTIP	20 Aug 2013	20 Aug 2016	20 Aug 2023	Nil	285,204
M Sherwin	LTIP	20 Aug 2013	20 Aug 2016	20 Aug 2023	Nil	213,904

Vesting of LTIP Options granted during the financial year ended 28 February 2014 is dependent upon the total shareholder return ("TSR") achieved by the Company over a three year period commencing on 1 March 2013.

Vesting of one half of the Awards is dependent on absolute growth in the Company's TSR, and the other half dependent on the Company's TSR performance as compared to the TSR achieved by the FTSE Small Cap index (excluding investment trusts). All TSR calculations will be based on the average of opening and closing share prices over a 10 Business Day period prior to the commencement and end of the performance period.

The absolute TSR growth target for the options granted in the year ended 28 February 2014 require the Company's TSR over the three year performance period to have grown by more than 25%. For TSR growth, over the 3 year period, between 25% and 100%, the half of the options subject to the absolute TSR growth target will vest on a straight-line basis, from nil vesting at 25% growth to 100% vesting at 100%. No options will vest if TSR growth over the 3 year period is 25% or less.

The comparative TSR performance condition will be as follows (applied to one half of the Option):

Ranking of Company TSR	Proportion of award vesting
Below median	0%.
Above 90th percentile	100%.
Between median and 90th percentile	Straight line vesting 0 – 100%

Directors' Remuneration Report (continued)

Information not subject to audit

Statement of directors' shareholding

The Directors who held office at 28 February 2014 and their connected persons had interests in the issued share capital of the Company as at 28 February 2014 as follows:

	Number of shares held (including by connected persons)		Unvested share options subject to performance conditions[2]	
	28 February 2014	**28 February 2013**	**28 February 2014**	**28 February 2013**
R T Forrester	6,545,204	6,364,762	285,204	-
M Sherwin	327,988	201,371	213,904	600,000
P R Williams	2,827,485	2,827,485	-	-
D M Forbes	352,600	300,000	-	-
W M Teasdale	616,450	563,850	-	-
N Stead	56,500	30,000	-	-

[2] The Directors hold no vested but unexercised share options.

Performance graph

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

The middle market price of the shares as at 28 February 2014 was 64.0p (28 February 2013: 40.3p) and the range during the financial year was 38.4p to 66.1p (2013: 26.8p to 42.5p).

Change in remuneration of Chief Executive

The following table sets out the change in the Chief Executive's salary, benefits and bonus between the years ended 28 February 2013 and 2014 compared with the average percentage change in each of those components for the employees of the Group.

	Increase in Base Salary	Change in benefits	Increase in bonus
CEO	0%	0%	20%
Employees	3%	0.2%	23%

Relative importance of spend on pay

The table below sets out the total spend on pay in the years ended 28 February 2013 and 2014 compared with other disbursements from profit (i.e. the distributions to shareholders).

	Spend in the year ended 28 February 2014 £'000	Spend in the year ended 28 February 2013 £'000	% change
Spend on remuneration (including directors)	110,470	89,690	23%
Profit distributed by way of dividend	2,526	1,296	95%

Implementation of remuneration policy for the year ending 28 February 2015

The salaries and fees to be paid to directors in the year ending 28 February 2015 are set out in the table below, together with any increase expressed as a percentage.

	Salary/fees 28 February 2015 £'000	28 February 2014 £'000	Increase %
R T Forrester	250	240	4
M Sherwin	190	180	6
P R Williams	70	70	-
D M Forbes	35	35	-
W M Teasdale	50	50	-
N Stead	35	35	-

The basis for determining annual bonus payments for the year to 28 February 2015 is set out in the future policy table in the Remuneration Committee Report (page 29). The profit targets are considered commercially sensitive because of the information that it provides to the Company's competitors and consequently these will only be disclosed after the end of the financial year, in the 2015 annual report on remuneration.

The Committee intends to grant options under the LTIP in 2014/15. These options will be £Nil costs options over a value of shares subject to a maximum of 125% of salary where the vesting is subject to targets based on the achievement of absolute growth in the company's total shareholder return ("TSR") and relative growth in TSR against FTSE small cap index (excluding investment trusts), measured over a three year period from 1 March 2014.

Consideration by the directors of matters relating to directors' remuneration

The Committee

The Committee is responsible for reviewing and recommending the framework and policy for remuneration of the Executive Directors. The Committee's terms of reference are available from the Company Secretary. The members of the Committee during the financial year were D M Forbes (Chairman), W M Teasdale, P R Williams and N Stead.

Directors' Remuneration Report (continued)

Consideration by the directors of matters relating to directors' remuneration (continued)

The primary role of the Committee is to set the directors' remuneration policy and accordingly to :

- Review, recommend and monitor the level and structure of remuneration for the Executive Directors;
- Approve the remuneration package for the Executive Directors;
- Determine the balance between base pay and performance related elements of the package to align Executive Directors' interests with those of shareholders; and
- Approve annual incentive payments for Executive Directors.

Summary of activity during the year ended 28 February 2014

The Committee conducted its annual review of all aspects of the remuneration packages of the Executive Directors to ensure that they continue to reward and motivate achievement of medium and long-term objectives, and align the interests of Executive Directors and shareholders. Accordingly, the Committee's activities during the year included:

- Reviewing the basic salaries of the Executive Directors for 2014/15
- Setting annual performance targets in line with the company's strategic plan for the 2014/15 annual incentive plan and determining the amounts that may potentially be payable; and
- Determining the form of the long-term incentive arrangements for 2014/15 under the LTIP, including the size of option grants and the applicable performance targets.

The Committee appointed and received advice over this year from Deloitte LLP on the LTIP elements of the directors' remuneration policy as well as assistance in creating and implementing the LTIP. During the year, Deloitte LLP was paid fees of £24,000.

Statement of voting at the 2013 AGM

At the last annual general meeting, votes on the remuneration report were cast as follows:

Votes for	%	Votes against	%	Abstentions
194,067,064	99.68	613,984	0.32	1,500

Approval by Shareholders

At the Annual General Meeting of the Company a resolution approving the Directors' Remuneration report is to be proposed as an ordinary resolution.

By order of the Board

David M Forbes
Chairman of the Remuneration Committee
7 May 2014

Independent Auditors' Report to the members of Vertu Motors plc

Report on the group financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's affairs as at 28 February 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group Financial Statements (the "Financial Statements"), which are prepared by Vertu Motors plc, comprise:

- the Consolidated Balance Sheet as at 28 February 2014;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the Financial Statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report, rather than in the notes to the Financial Statements. These are cross – referred from the Financial Statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of the Directors' Responsibilities set out on page 25, 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 ISAs (UK & 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.

Other matter

We have reported separately on the parent company financial statements of Vertu Motors plc for the year ended 28 February 2014.

Randal Casson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

7 May 2014

Consolidated Income Statement

For the year ended 28 February 2014

	Note	2014 £'000	2013 As restated (Note 1) £'000
Revenue			
Continuing operations		1,549,971	1,259,335
Acquisitions		134,561	-
		1,684,532	**1,259,335**
Cost of sales			
Continuing operations		(1,372,295)	(1,110,254)
Acquisitions		(120,040)	-
		(1,492,335)	**(1,110,254)**
Gross profit			
Continuing operations		177,676	149,081
Acquisitions		14,521	-
		192,197	**149,081**
Operating expenses			
Continuing operations		(161,767)	(139,942)
Acquisitions		(12,526)	-
	6	**(174,293)**	**(139,942)**
Operating profit before amortisation, share based payments charge and exceptional charges			
Continuing operations		15,909	9,139
Acquisitions		1,995	-
		17,904	**9,139**
Amortisation of intangible assets		(293)	(291)
Share based payments charge		(195)	(99)
Exceptional charges	8	(1,180)	(3,606)
Operating profit		**16,236**	**5,143**
Finance income	11	331	108
Finance costs	11	(725)	(1,189)
Exceptional finance income	8	-	316
Profit before tax, amortisation, share based payments charge and total exceptional charges		17,510	8,058
Amortisation of intangible assets		(293)	(291)
Share based payments charge		(195)	(99)
Total exceptional charges	8	(1,180)	(3,290)
Profit before tax		**15,842**	**4,378**
Taxation	12	(3,414)	(989)
Profit for the year attributable to equity holders		**12,428**	**3,389**
Basic earnings per share (p)	13	**4.15**	**1.70**
Diluted earnings per share (p)	13	**4.11**	**1.69**
Adjusted earnings per share (p)	13	**4.69**	**3.15**

Consolidated Statement of Comprehensive Income

For the year ended 28 February 2014

	Note	2014 £'000	2013 As restated (Note 1) £'000
Profit for the year		**12,428**	**3,389**
Other comprehensive (expense) income			
Items that will not be reclassified to profit or loss:			
Actuarial (losses) gains on retirement benefit obligations	28	(1,558)	2,084
Deferred tax relating to actuarial (losses) gains on retirement benefit obligations	28	450	(438)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges	30	102	34
Deferred tax relating to cash flow hedges	30	(25)	(8)
Other comprehensive (expense) income for the year, net of tax		**(1,031)**	**1,672**
Total comprehensive income for the year attributable to equity holders		**11,397**	**5,061**

Consolidated Balance Sheet

As at 28 February 2014

	Note	2014 £'000	2013 £'000
Non-current assets			
Goodwill	15	41,189	21,526
Other intangible assets	16	1,209	1,059
Retirement benefit asset	28	3,069	4,178
Property, plant and equipment	18	116,676	102,932
Trade and other receivables	21	192	-
		162,335	**129,695**
Current assets			
Inventories	20	334,452	250,443
Trade and other receivables	21	42,971	43,939
Cash and cash equivalents	22	36,948	7,240
Total current assets		**414,371**	**301,622**
Total assets		**576,706**	**431,317**
Current liabilities			
Trade and other payables	23	(391,772)	(295,052)
Deferred consideration	18	(1,300)	(1,251)
Current tax liabilities		(5,161)	(2,677)
Borrowings	24	(2,000)	(2,000)
Total current liabilities		**(400,233)**	**(300,980)**
Non-current liabilities			
Borrowings	24	(3,512)	(11,454)
Derivative financial instruments	25	(74)	(176)
Deferred consideration	18	(1,300)	(2,600)
Deferred income tax liabilities	26	(2,574)	(4,014)
Deferred income	27	(5,634)	(5,452)
		(13,094)	**(23,696)**
Total liabilities		**(413,327)**	**(324,676)**
Net assets		**163,379**	**106,641**
Capital and reserves attributable to equity holders of the Group			
Ordinary shares	29	33,678	20,008
Share premium	29	96,729	60,727
Shares to be issued	29	-	2,000
Other reserve	29	8,820	8,820
Hedging reserve	30	(56)	(133)
Retained earnings		24,208	15,219
Shareholders' equity		**163,379**	**106,641**

These financial statements on pages 46 to 89 have been approved for issue by the Board of Directors on 7 May 2014:

Robert Forrester
Chief Executive

Michael Sherwin
Finance Director

Consolidated Cash Flow Statement

For the year ended 28 February 2014

	Note	2014 £'000	2013 As restated (Note 1) £'000
Cash flows from operating activities			
Operating profit		16,236	5,143
Loss on sale of property, plant and equipment	6	40	8
Amortisation of other intangible assets	16	293	291
Depreciation of property, plant and equipment	18	5,670	4,142
Impairment of freehold property	18	1,180	-
Movement in working capital	32	23,778	3,290
Share based payments charge	29	195	99
Cash generated from operations		**47,392**	**12,973**
Tax received		35	160
Tax paid		(2,385)	(1,590)
Finance income received		137	29
Finance costs paid		(658)	(1,265)
Net cash generated from operating activities		**44,521**	**10,307**
Cash flows from investing activities			
Acquisition of businesses, net of cash, overdrafts and borrowings acquired	17	(39,438)	(13,481)
Acquisition of freehold land and buildings		(4,509)	(1,400)
Purchases of intangible assets		(443)	(338)
Purchases of property, plant and equipment		(9,577)	(4,498)
Proceeds from disposal of business (net of cash, overdrafts and borrowings)	17	1,926	-
Proceeds from disposal of property, plant and equipment		82	726
Net cash outflow from investing activities		**(51,959)**	**(18,991)**
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		47,672	301
Repayment of borrowings	31	(8,000)	(2,000)
Proceeds from borrowings	31	-	6,060
Dividends paid to equity holders		(2,526)	(1,296)
Net cash inflow from financing activities		**37,146**	**3,065**
Net increase (decrease) in cash and cash equivalents	31	**29,708**	**(5,619)**
Cash and cash equivalents at beginning of year		7,240	12,859
Cash and cash equivalents at end of year	22	**36,948**	**7,240**

Consolidated Statement of Changes in Equity

For the year ended 28 February 2014

	Ordinary share capital £'000	Share premium £'000	Shares to be issued £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2013	**20,008**	**60,727**	**2,000**	**8,820**	**(133)**	**15,219**	**106,641**
Profit for the year	-	-	-	-	-	12,428	12,428
Actuarial losses on retirement benefit obligations (note 28)	-	-	-	-	-	(1,558)	(1,558)
Tax on items taken directly to equity (note 26)	-	-	-	-	(25)	450	425
Fair value gains (note 30)	-	-	-	-	102	-	102
Total comprehensive income for the year	-	-	-	-	77	11,320	11,397
New ordinary shares issued	13,670	38,330	(2,000)	-	-	-	50,000
Costs associated with issuance of of ordinary shares	-	(2,328)	-	-	-	-	(2,328)
Dividend paid	-	-	-	-	-	(2,526)	(2,526)
Share based payments charge	-	-	-	-	-	195	195
As at 28 February 2014	**33,678**	**96,729**	**-**	**8,820**	**(56)**	**24,208**	**163,379**

The other reserve is a merger reserve, arising from shares issued for shares as consideration, to the former shareholders of acquired companies. The shares to be issued reserve represented the contracted subscription of shares by the vendors of the Dobies (Carlisle) business, acquired in January 2013. This subscription completed during the year and the associated shares admitted to AiM on 28 June 2013.

For the year ended 28 February 2013 (as restated (note 1))

	Ordinary share capital £'000	Share premium £'000	Shares to be issued £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2012	**19,928**	**60,506**	**-**	**8,820**	**(159)**	**11,381**	**100,476**
Profit for the year	-	-	-	-	-	3,389	3,389
Actuarial gain on retirement benefit obligations (note 28)	-	-	-	-	-	2,084	2,084
Tax on items taken directly to equity (note 26)	-	-	-	-	(8)	(438)	(446)
Fair value gains (note 30)	-	-	-	-	34	-	34
Total comprehensive income for the year	-	-	-	-	26	5,035	5,061
New ordinary shares issued	80	221	-	-	-	-	301
Shares to be issued	-	-	2,000	-	-	-	2,000
Dividend paid	-	-	-	-	-	(1,296)	(1,296)
Share based payments charge	-	-	-	-	-	99	99
As at 28 February 2013	**20,008**	**60,727**	**2,000**	**8,820**	**(133)**	**15,219**	**106,641**

Notes to the Consolidated Financial Statements

1. Accounting Policies

Basis of Preparation

Vertu Motors plc is a Public Limited Company which is listed on the Alternative Investment Market (AiM) and is incorporated and domiciled in the United Kingdom. The address of the registered office is Vertu House, Kingsway North, Team Valley, Gateshead, Tyne and Wear, NE11 0JH. The registered number of the Company is 05984855.

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

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

The consolidated financial statements include the results of all subsidiaries wholly owned by Vertu Motors plc as listed on page 97 and 98 of the annual report. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2014 by virtue of s479C of Companies Act 2006. Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2014 by virtue of s394A of Companies Act 2006. In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the parent company Vertu Motors plc has given a statutory guarantee of all the outstanding liabilities as at 28 February 2014 of the subsidiaries listed below, further details of which are provided in note 33.

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2014 by virtue of s479C Companies Act 2006 are:

Bristol Street Commercials (Italia) Limited
Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Compare Click Call Limited
Dobies (Carlisle) Limited
Grantham Motor Company Limited
Macklin Property Limited
Tyne Tees Finance Limited
Vertu Motors (AMC) Limited
Vertu Motors (Property) Limited
K C Mobility Solutions Limited

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2014 by virtue of s394A of Companies Act 2006 are:

Blake Holdings Limited
Bristol Street (No.1) Limited
Bristol Street (No.2) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
BSH Pension Trustee Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
Dunfermline Autocentre Limited
Widnes Car Centre (1994) Limited
Vertu Motors (Durham) Limited
National Allparts Limited
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (Finance) Limited
Vertu Motors (Retail) Limited
Vertu Motors Third Limited
Boydslaw 103 Limited
Vertu Motors (Pity Me) Limited
Widnes Car Centre Limited

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.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Basis of Preparation (continued)

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

Standards and interpretations adopted by the Group in the year ended 28 February 2014

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income: The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The adoption of the standard had no significant impact.
- Amendment to IAS 19, 'Employee benefits': The amendments require immediate recognition of actuarial gains and losses in other comprehensive income. The principal amendment that affects the Group is the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation. The new standard requires retrospective application and impacts the Groups Income Statement and Statement of Comprehensive Income as a result of the changes in assessing the return on pension scheme assets. A prior year restatement has been made to reflect these changes which is explained in further detail below.
- IFRS 13 'Fair Value Measurement': New standard to replace existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework of measuring fair values and disclosures about fair value measurements. This standard applies to assets, liabilities and an entities own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The adoption of this standard has had no impact.

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

IFRS 10: 'Consolidated financial statements'

IFRS 11: 'Joint arrangements'

IFRS 12: 'Disclosures of interests in other entities'

IAS 27 (revised 2011): 'Separate financial statements'

IAS 28 (revised 2011): 'Associates and joint ventures'

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the company.

Prior year restatements

<u>IAS 19 (revised) Employee Benefits</u>

As a result of the revisions to IAS 19, the Group has changed its accounting policy with respect to determining the income or expense related to its defined benefit pension scheme. The impact of this change which has been applied retrospectively is :

- IAS19 (revised) replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. There is no change to the determination of the discount rate; this continues to reflect the yield on high quality corporate bonds. The effect of this was to increase the net interest cost of the pension scheme in the income statement by £147,000 for the year ended 28 February 2013, reducing profit before tax by the same amount, with a corresponding decrease in the cost within the statement of other comprehensive income for the period.

1. Accounting Policies (continued)

Prior year restatements (continued)

IAS 19 (revised) Employee Benefits (continued)

- Administrative expenses of the scheme have been charged to operating expenses within the income statement; previously these were charged to the interest line. The effect has been that operating expenses have increased by £253,000 for the year ended 28 February 2013.
- Net interest income has increased by the net amount of £106,000 for the year ended 28 February 2013.
- The effect of the change on cash flow and on earnings per share was immaterial. There is no impact on the balance sheet or net assets of the group for the year ended 28 February 2013.

Warranty Provision

Following a review during the year of the accounting treatment of income received in respect of used vehicle warranty policies sold by the Group, the directors believe that presenting this balance as Deferred Income, in the case of income due in greater than one year, would more accurately reflect the nature of the underlying transactions.

The effect has been that the balance of £5,452,000 within non-current liabilities at 28 February 2013 referred to as 'Provisions for other liabilities' has been renamed 'Deferred income'.

Parts Drivers Expenses

Following a review of expense allocation during the year, the expense in respect of parts drivers has been reclassified from cost of sales to operating expenses. The effect has been that cost of sales has decreased by £975,000 and operating expenses have increased by £975,000 for the year ended 28 February 2013.

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.

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.

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, as follows:

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'operating expenses' in the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost for parts is determined using the first-in, first-out (FIFO) method. Costs incurred in bringing each product to its present location and condition are included and cost is based on price including delivery costs less specific trade discounts. Net realisable value is based on estimated selling price less further costs to be incurred to disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

1. Accounting Policies (continued)

Inventories (continued)

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

Trade receivables

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

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

Trade payables

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

Warranty product income

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

When the income is received it is recognised initially as deferred income and is released to the income statement on a straight-line basis over the life of each warranty policy.

Impairment of financial and non-financial assets

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

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

1. Accounting Policies (continued)

Impairment of financial and non-financial assets (continued)

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.

In assessing value in use, the estimated future cash flows of separately identifiable cash generating units ("CGU's") are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. 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 the expense category consistent with the function of the impaired asset.

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

Taxation

Current tax

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

Deferred tax

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

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

b. in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

1. Accounting Policies (continued)

Taxation (continued)

Deferred tax (continued)

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

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

Revenue

Revenue for the sale of goods and services is measured at the fair value of consideration receivable, net of value added tax, 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 trust based 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 and contributions into the defined contribution section ceased on 31 May 2013 upon the implementation of a new Group personal pension arrangement.

Both a defined contribution scheme and Group personal pension arrangement are schemes under which the Group pays fixed contributions into an individual's funds. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior years.

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. 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.

1. Accounting Policies (continued)

Share based payments

The Group allows employees to acquire shares of the Company through share option schemes. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The Group operates a number of equity-settled, share-based compensation plans. The total amount to be expensed over the vesting 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.

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

Cash and cash equivalents

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

Segmental reporting

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

Exceptional charges

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

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lifetime of the lease.

Share capital

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

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the Company's shareholders.

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.

1. Accounting Policies (continued)

Derivative financial instruments (continued)

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 25. Movements on the hedging reserve in shareholders' equity are shown in note 30. 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.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income or costs.

Amounts accumulated in equity are recycled in the income statement in the years when the hedged item affects profit and loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'.

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

2. Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt market prices and interest rates. The Group's treasury management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments to reduce exposure to interest rate movements.

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

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

Market Risk – Cash Flow Interest Rate Risk

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

The interest rate exposure of the Group is managed within the constraints of the Group's business plan and the financial covenants under its facilities. The Group aims to reduce exposure to the effect of interest rate movements by hedging an appropriate amount of interest rate exposure. The impact of movements in interest rates is managed, where considered appropriate, through the use of interest rate swaps.

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management (continued)

Market Risk – Cash Flow Interest Rate Risk (continued)

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

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

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 21.

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 24 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	2,183	3,574	5,757
Trade and other payables (excluding social security and other taxes)	387,922	-	387,922
At 28 February 2014	**390,105**	**3,574**	**393,679**

	Less than one year £'000	**Between two and five years £'000**	**Total £'000**
Bank borrowings	2,395	12,098	14,493
Trade and other payables (excluding social security and other taxes)	291,953	-	291,953
At 28 February 2013	**294,348**	**12,098**	**306,446**

3. Capital risk management

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

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

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

The Group had net cash of £31,436,000 at 28 February 2014 as disclosed in note 31 to the consolidated financial statements (2013 : Net debt of £6,214,000).

Fair value estimation

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

4. Critical accounting estimates and judgements

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

Valuation of goodwill

The valuation of goodwill acquired during the year has been performed in accordance with IFRS3 and is therefore based on provisional values ascribed within the measurement period subsequent to acquisition. Management judgement has been used in determining the existence and value of separately identifiable assets acquired as part of the business combination.

Impairment of goodwill

The Group tests annually, or whenever events or changes in circumstances occur, to determine 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.

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 29.

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

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

4. Critical accounting estimates and judgements (continued)

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 into which contributions ceased in 31 May 2013. The obligations under this defined benefit scheme are recognised in the balance sheet and represent the present value of the obligations calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of the assumptions used in the year ended 28 February 2014 are provided in note 28.

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 operating segment, since the Group is operated and is managed on a dealership by dealership basis. Dealerships operate a number of different business streams such as new vehicle sales, used vehicle sales and after-sales operations. Management is organised based on the dealership operations as a whole rather than the specific business streams.

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

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

	2014 Revenue	2014 Revenue	2014 Gross Margin	2013 Revenue	2013 Revenue	2013 Gross Margin
	£'m	%	%	£'m	%	%
New car retail	534.4	32	7.6	384.6	31	7.4
New fleet and commercial	420.4	25	2.4	316.0	25	2.3
Used cars	582.6	34	10.8	431.9	34	11.3
After-sales*	147.1	9	43.1	126.8	10	41.4**
	1,684.5	**100**	**11.4**	**1,259.3**	**100**	**11.8**

* margin in after-sales expressed on internal and external turnover
** prior year margin has been restated due to reallocation of parts drivers costs (Note 1). The impact of the restatement improves prior year gross margin in after-sales by 0.6%.

Notes to the Consolidated Financial Statements (continued)

6. Operating expenses

	2014 £'000	2013 As restated (Note 1) £'000
Wages and salaries excluding share based payments charges (note 9)	96,653	78,917
Depreciation on property, plant and equipment (note 18)	5,670	4,142
Loss on disposal of property, plant and equipment	40	8
Operating lease rentals – property	6,744	5,867
Operating lease rentals – plant and equipment	154	147
Operating lease rentals – vehicles	1,957	1,833
Auditors' remuneration (note 7)	251	164
Other expenses	62,824	48,864
	174,293	**139,942**

7. Auditors' remuneration

	2014 £'000	2013 £'000
Fees payable to the Company's auditors for the audit of the parent Company and consolidated financial statements	155	140
Fees payable to the Company's auditors and its associates for other services:		
- audit of Group's subsidiaries	19	12
- other services	77	12
	251	**164**

8. Exceptional charges

	2014 £'000	2013 £'000
Impairment of fixed assets	1,180	-
Reorganisation and closure costs	-	2,315
Onerous leases provision	-	1,464
Reclaims of VAT overpayments	-	(173)
	1,180	**3,606**
Interest element of VAT repayment	-	(316)
	1,180	**3,290**

The impairment charge in the year to 28 February 2014 is in relation to the write down of four vacant properties during the year to their estimated recoverable amount.

9. Employee benefit expense

	2014 £'000	2013 £'000
Wages and salaries	99,169	81,601
Social security costs	9,688	6,712
Pension costs – defined contribution plans	1,613	1,377
	110,470	**89,690**
Share based payments charge (note 29)	195	99
	110,665	**89,789**

Employee benefit expense included in:

	2014 £'000	2013 As restated (Note 1) £'000
Operating expenses	96,653	78,917
Cost of sales	13,817	10,773
Share based payment charge	195	99
	110,665	**89,789**

Details of the remuneration of the Directors who served during the year from 1 March 2013 to 28 February 2014 and the year from 1 March 2012 to 28 February 2013 are given in the Directors' Remuneration Report on page 39 to 40.

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

	Number 2014	Number 2013
Sales and distribution	1,353	1,154
Service, parts and accident repair centres	1,348	1,224
Administration	787	681
	3,488	**3,059**

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

	Number 2014	Number 2013
Sales and distribution	1,468	1,278
Service, parts and accident repair centres	1,462	1,304
Administration	863	729
	3,793	**3,311**

Notes to the Consolidated Financial Statements (continued)

11. Finance income and costs

	2014	2013 As restated (Note 1)
	£'000	£'000
Interest on short term bank deposits	55	29
Vehicle stocking interest	82	-
Net finance income relating to Group pension scheme (note 28)	194	79
Finance income	**331**	**108**
Bank loans and overdrafts	(703)	(964)
Vehicle stocking interest	-	(206)
Other finance costs	(22)	(19)
Finance costs	**(725)**	**(1,189)**

12. Taxation

	2014	2013 As restated (Note 7)
	£'000	£'000
Current tax		
Current tax charge	4,526	1,392
Adjustment in respect of prior years	241	(746)
Total current tax	**4,767**	**646**
Deferred tax		
Origination and reversal of temporary differences	(148)	295
Adjustment in respect of prior years	(666)	330
Rate differences	(539)	(282)
Total deferred tax (note 26)	**(1,353)**	**343**
Income tax expense	**3,414**	**989**

	2014	2013
	£'000	£'000
Comprising:		
Taxation – excluding exceptional charges	3,414	1,712
Taxation – exceptional charges	-	(723)
	3,414	**989**

12. Taxation (continued)

	2014 £'000	2013 As restated (Note 1) £'000
Factors affecting taxation expense in the year:		
Profit before taxation and exceptional charges	17,022	7,668
Exceptional charges	(1,180)	(3,290)
Profit before taxation from continuing operations	**15,842**	**4,378**
Profit before taxation multiplied by the rate of corporation tax in the UK of 23.08% (2013: 24.17%)	3,656	1,058
Non-deductible amortisation	-	70
Non-qualifying depreciation	301	341
Non-deductible expenses	436	251
Effect on deferred tax balances due to rate change	(539)	(282)
Small companies rate	(2)	(3)
Property adjustment	46	89
Permanent benefits	(51)	(78)
Utilisation of unprovided deferred tax	(8)	(41)
Adjustments in respect of prior years	(425)	(416)
Total tax expense included in the income statement	**3,414**	**989**

The standard rate of Corporation Tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the Group's profits for this accounting period are taxed at an effective rate of 23.08%.

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 at the average annual market price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated, as set out above, is compared with the number of shares that would have been issued assuming the exercise of the share options.

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)

	2014 £'000	2013 As restated (Note 1) £'000
Profit attributable to equity shareholders	12,428	3,389
Amortisation of intangible assets	293	291
Share based payments charge	195	99
Exceptional charges	1,180	3,290
Tax effect of adjustments	(68)	(788)
Adjusted earnings attributable to equity shareholders	**14,028**	**6,281**
Weighted average number of shares in issue ('000s)	299,367	199,459
Potentially dilutive shares ('000s)	3,263	881
Diluted weighted average number of shares in issue ('000s)	**302,630**	**200,340**
Basic earnings per share	**4.15p**	**1.70p**
Diluted earnings per share	**4.11p**	**1.69p**
Basic adjusted earnings per share	**4.69p**	**3.15p**
Diluted adjusted earnings per share	**4.64p**	**3.14p**

14. Dividends per share

The dividends paid in the year to 28 February 2014 were 0.75p per share in total (2013: 0.65p). A final dividend in respect of the year ended 28 February 2014 of 0.5p per share, is to be proposed at the annual general meeting on 24 July 2014. The ex dividend date will be 25 June 2014 and the associated record date 27 June 2014. This dividend will be paid, subject to shareholder approval, on 29 July 2014 and these financial statements do not reflect this final dividend payable.

15. Goodwill

	2014 £'000	2013 £'000
Cost and net book value		
At beginning of year	21,526	20,620
Additions (note 17)	19,663	906
At end of year	**41,189**	**21,526**

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

- Goodwill
- Other assets where there is any indication that the relevant asset may be impaired.

In the years ended 28 February 2014 and 28 February 2013, the acquired goodwill was tested for impairment, with no goodwill impairment charge deemed necessary.

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

15. Goodwill (continued)

A summary of the goodwill purchased is presented below:

	2014 £'000	2013 £'000
Bristol Street Group Limited	13,860	13,860
Blake Holdings Limited	1,366	1,366
Grantham Motor Company Limited	3,209	3,209
Boydslaw 103 Limited	1,452	1,452
Albert Farnell Limited	17,439	-
Brookside (1998) Limited	1,654	-
Other acquisitions	2,209	1,639
	41,189	**21,526**

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

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

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

An annual growth rate of 3% is assumed for the first five years, after which a growth rate of 0% is assumed to perpetuity. A risk adjusted post-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 7.2% (2013: 7.3%) is applied. A post-tax WACC of above 10% has to be applied before any entity impairment arises. A negative growth rate of greater than -5% has to be applied before any impairment arises.

16. Other intangible assets

2014	**Software costs £'000**	**Customer relationships £'000**	**Total £'000**
Cost			
At 1 March 2013	1,904	534	2,438
Additions	443	-	443
At 28 February 2014	**2,347**	**534**	**2,881**
Accumulated amortisation			
At 1 March 2013	1,220	159	1,379
Charge for the year	266	27	293
At 28 February 2014	**1,486**	**186**	**1,672**
Net book value at 28 February 2014	**861**	**348**	**1,209**
Net book value at 28 February 2013	**684**	**375**	**1,059**

Notes to the Consolidated Financial Statements (continued)

16. Other intangible assets (continued)

2013	Software costs £'000	Customer relationships £'000	Total £'000
Cost			
At 1 March 2012	1,541	534	2,075
Additions	363	-	363
At 28 February 2013	**1,904**	**534**	**2,438**
Accumulated amortisation			
At 1 March 2012	956	132	1,088
Charge for the year	264	27	291
At 28 February 2013	**1,220**	**159**	**1,379**
Net book value at 28 February 2013	**684**	**375**	**1,059**
Net book value at 29 February 2012	**585**	**402**	**987**

17. Business combinations

a) Acquisition of Albert Farnell Limited

On 12 June 2013 the Group acquired the entire issued share capital of Albert Farnell Limited which operates three Land Rover dealerships in Leeds, Bradford and Guiseley from Co-operative Group Motors Limited for total cash consideration of £31,176,000.

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

	Fair Value £'000
Property, plant and equipment	3,890
Inventories	10,257
Trade and other receivables	446
Cash and cash equivalents	1
Trade and other payables	(573)
Deferred tax	(284)
	13,737
Goodwill	17,439
Consideration – satisfied by cash	**31,176**

Acquisition related costs (included in the consolidated income statement for the year ended 28 February 2014) totalled £215,000 in respect of this acquisition.

The goodwill arising on acquisition is attributable to the anticipated profitability of the distribution of the Group's products through the acquired dealerships.

Between 1 March 2013 and acquisition the business generated revenue of £43,365,000 and operating profit of £1,014,000. Between acquisition and 28 February 2014 the business generated revenue of £92,185,000 and operating profit of £3,788,000.

17. Business combinations (continued)

b) Trade and assets of Boston and Lincoln Volkswagen

On 9 July 2013 the Group acquired the trade and certain assets of Boston and Lincoln Volkswagen from Lookers Motor Group Limited for total estimated cash consideration of £3,042,000.

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

	Fair Value £'000
Property, plant and equipment	1,381
Inventories	1,483
Trade and other receivables	22
Trade and other payables	(114)
	2,772
Goodwill	270
Consideration – satisfied by cash	**3,042**

Acquisition related costs (in the consolidated income statement for the year ended 28 February 2014) totalled £62,000 in respect of this acquisition.

The goodwill arising on acquisition is attributable to the anticipated profitability of the distribution of the Group's products through the acquired dealerships.

c) Acquisition of Brookside (1998) Limited

On 29 November 2013 the Group acquired the entire issued share capital of Brookside (1998) Limited which represents three Volkswagen dealerships, two in Nottingham and one in Mansfield for total estimated cash consideration of £1,658,000.

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

	Fair Value £'000
Property, plant and equipment	1,685
Inventories	3,090
Trade and other receivables	1,107
Cash and cash equivalents	(713)
Trade and other payables	(5,044)
Corporate tax	(67)
Deferred tax	(54)
	4
Goodwill	1,654
Consideration – satisfied by cash	**1,658**

Acquisitions related costs (in the consolidated income statement for the year ended 28 February 2014) totalled £186,000 in respect of this acquisition.

The goodwill arising on acquisition is attributable to the anticipated profitability of the distribution of the Group's products through the acquired dealerships.

Between 1 March 2013 and acquisition the business generated revenue of £34,116,000 and operating profit of £281,000. Between acquisition and 28 February 2014 the business generated revenue of £7,577,000 and an operating loss of £462,000.

Notes to the Consolidated Financial Statements (continued)

17. Business combinations (continued)

d) Other acquisitions

On 21 November 2013 the Group acquired the trade and certain assets of a Hyundai dealership in Edinburgh from The Phoenix Car Company Limited. In addition, on the same date the Group acquired the trade and certain assets of another Hyundai dealership in Edinburgh from Archers of Edinburgh Limited.

On 31 January 2014 the Group acquired the trade and certain assets of Sheffield Nissan and Volvo from Harratts of Wakefield Limited.

Total cash consideration for these acquisitions was £2,850,000 including deferred consideration of £50,000 subject to adjustment for movement in acquired net asset values.

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

	Fair Value £'000
Property, plant and equipment	2,024
Inventories	687
Trade and other receivables	73
Trade and other payables	(234)
	2,550
Goodwill	300
Consideration – satisfied by cash	**2,850**

Acquisition related costs (included in the consolidated income statement for the year ended 28 February 2014) totalled £87,000 in respect of these acquisitions.

The goodwill arising relates to the Edinburgh Hyundai acquisitions and is attributable to the anticipated profitability of the distribution of the Group's product through the acquired dealerships.

Summary of acquisitions' cash consideration

	Cash Consideration £'000	**(Cash)/ Overdraft Acquired £'000**	**Total £'000**
Albert Farnell Limited	31,176	(1)	31,175
Former Lookers Motor Group business	3,042	-	3,042
Brookside (1998) Limited	1,658	713	2,371
Other acquisitions	2,850	-	2,850
	38,726	**712**	**39,438**

17. Business combinations (continued)

Summary of the fair value of net assets acquired

	Albert Farnell Limited £'000	Lincoln and Boston Volkswagen £'000	Brookside (1998) Limited £'000	Other acquisitions £'000	Total £'000
Property, plant and equipment	3,890	1,381	1,685	2,024	8,980
Inventories	10,257	1,483	3,090	687	15,517
Trade and other receivables	446	22	1,107	73	1,648
Cash and cash equivalents	1	-	(713)	-	(712)
Trade and other payables	(573)	(114)	(5,044)	(234)	(5,965)
Corporate tax	-	-	(67)	-	(67)
Deferred tax	(284)	-	(54)	-	(338)
	13,737	**2,772**	**4**	**2,550**	**19,063**

e) Disposal of the trade and assets of Bristol Street Commercials (Italia) Limited

On 31 May 2013 the Group disposed of its three heavy truck operations, comprising the Iveco sales and aftersales outlets in Bristol, Swindon and Gloucester, to Aquila Truck Centres (Italia) Limited for cash consideration of £1,926,000 and 192,000 cumulative preference shares of £1 each in Aquila Truck Centres (Italia) Limited. The preference shares do not hold voting rights and entitle the Group to a fixed cumulative preferential dividend at the rate of 4% per annum on the preference share issue price. The value of the preference shares has been included as a non current receivable at 28 February 2014 (note 21).

Details of the net assets disposed of are as follows:

	Fair Value £'000
Property, plant and equipment	122
Inventories	2,765
Trade and other payables	(619)
	2,268
Consideration satisfied by:	
Cash	1,926
Deferred consideration	150
Redeemable preference shares	192
Total consideration	**2,268**

Deferred consideration in respect of this disposal is receivable in June 2014 and has been included within accrued income at 28 February 2014 (Note 20).

Disposal related costs (included in the consolidated income statement for the year ended 28 February 2014) totalled £98,000 in respect of this disposal.

18. Property, plant and equipment

2014	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 2013	100,507	4,049	3,893	5,511	113,960
Acquisitions**	11,060	106	409	1,914	13,489
Additions	4,466	294	782	1,807	7,349
Disposals	(2,271)	(520)	(946)	(590)	(4,327)
Reclassifications	(121)	(101)	50	172	-
At 28 February 2014	**113,641**	**3,828**	**4,188**	**8,814**	**130,471**
Accumulated depreciation and impairment					
At 1 March 2013	6,764	1,043	1,197	2,024	11,028
Depreciation charge	2,335	529	985	1,821	5,670
Impairment	1,180	-	-	-	1,180
Disposals	(2,264)	(509)	(804)	(506)	(4,083)
Reclassifications	(17)	17	(3)	3	-
At 28 February 2014	**7,998**	**1,080**	**1,375**	**3,342**	**13,795**
Net Book Value					
At 28 February 2014	**105,643**	**2,748**	**2,813**	**5,472**	**116,676**
At 28 February 2013	**93,743**	**3,006**	**2,696**	**3,487**	**102,932**

* Includes leasehold improvements

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

Depreciation expense of £5,670,000 has been charged in operating expenses (note 6). The impairment charge in the year relates to a write down in respect of four vacant properties to their estimated recoverable amount (note 8).

In addition to the security provided for the Group's bank borrowings, specific charges over freehold land and buildings with a cost of £10,900,000 (2013: £10,900,000) have been granted to manufacturer partners as security against consignment stocking lines. Furthermore specific charges over freehold land and buildings with a cost of £3,017,000 (2013: £4,422,000) have been granted to the Co-operative Group as security for deferred consideration on businesses acquired in the previous financial year. Deferred consideration of £2,600,000 remains outstanding in respect of this acquisition with £1,300,000 payable in greater than one year.

18. Property, plant and equipment (continued)

2013	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 2012	84,644	3,695	3,475	4,161	95,975
Acquisitions	11,647	-	378	418	12,443
Additions	5,000	366	1,085	1,530	7,981
Disposals	(789)	(7)	(1,023)	(620)	(2,439)
Reclassifications	5	(5)	(22)	22	-
At 28 February 2013	**100,507**	**4,049**	**3,893**	**5,511**	**113,960**
Accumulated depreciation					
At 1 March 2012	5,199	726	1,265	1,411	8,601
Depreciation charge	1,677	324	952	1,189	4,142
Disposals	(113)	(6)	(1,012)	(584)	(1,715)
Reclassifications	1	(1)	(8)	8	-
At 28 February 2013	**6,764**	**1,043**	**1,197**	**2,024**	**11,028**
Net Book Value					
At 28 February 2013	**93,743**	**3,006**	**2,696**	**3,487**	**102,932**
At 29 February 2012	**79,445**	**2,969**	**2,210**	**2,750**	**87,374**

*includes leasehold improvements

19. Subsidiary undertakings

A list of significant subsidiary undertakings (ordinary shares 100% owned and incorporated within the United Kingdom), as at 28 February 2014 and 28 February 2013 is given in note 3 of the Vertu Motors plc company only financial statements (page 97 and 98).

20. Inventories

	2014 £'000	2013 £'000
New vehicle stock	253,880	189,045
Used, demonstrator and courtesy vehicles	69,530	50,557
Parts and sundry stocks	11,042	10,841
	334,452	**250,443**

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

	2014 £'000	2013 £'000
Interest bearing consignment stock	9,436	7,311
Stock invoiced not yet paid held by manufacturers to the order of the group	221,472	163,292
Other new vehicle stock	22,972	18,442
	253,880	**189,045**

A corresponding liability is held in trade payables in respect of stock invoiced not yet paid held by manufacturers to the order of the group and interest bearing consignment stock.

The cost of inventories recognised as expense and included within 'cost of sales' amounted to £1,536,797,000 (2013: £1,142,739,000).

21. Trade and other receivables

Non-current

	2014 £'000	2013 £'000
Other receivables	192	-
	192	**-**

The non-current other receivables balance relates to redeemable preference shares received as part consideration for the disposal of the Group's heavy truck business to Aquila Truck Centres (Italia) Limited (note 17).

Current

	2014 £'000	2013 £'000
Trade receivables	20,257	22,363
Less provision for impairment of trade receivables	(766)	(497)
Trade receivables (net)	**19,491**	**21,866**
Other receivables	18,143	17,565
Prepayments and accrued income	5,337	4,508
	42,971	**43,939**

As at 28 February 2014, trade receivables of £656,000 (2013: £1,217,000) were past due but not impaired. The ageing of these receivables are all within 3 months overdue.

As at 28 February 2014, trade receivables of £766,000 (2013: £497,000) were impaired and provided for.

21. Trade and other receivables (continued)

Current (continued)

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

	2014 £'000	2013 £'000
At beginning of year	497	473
Charge for receivables impairment	627	590
Receivables written off during the year as uncollectible	(124)	(299)
Unused amounts reversed	(234)	(267)
At end of year	**766**	**497**

The creation and release of provision for impaired receivables has 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.

22. Cash and cash equivalents

	2014 £'000	2013 £'000
Cash in bank and in hand	36,948	7,240

23. Trade and other payables

	2014 £'000	2013 £'000
Current		
Trade payables	342,102	259,022
Social security and other taxes	3,850	3,099
Accruals and deferred income	28,320	20,431
Other payables	17,500	12,500
	391,772	**295,052**

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.

24. Borrowings

	2014 £'000	2013 £'000
Current		
Bank borrowings	2,000	2,000
Non-current		
Bank borrowings	3,346	11,288
Other borrowings	166	166
	3,512	11,454
	5,512	**13,454**

Borrowings are repayable as follows:

	2014 £'000	2013 £'000
6 months or less	1,000	1,000
6-12 months	1,000	1,000
1-5 years	3,512	11,454
	5,512	**13,454**

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 2014, loans were subject to an interest rate of 2.25% above LIBOR. The Group's £15,000,000 revolving credit facility is available until 30 September 2016 with an applicable interest rate of 1.70% above LIBOR. A rate of 1.50% above base rate has been applied in relation to overdrafts and a rate of 1.35% above LIBOR has been applied on the Group's Committed Money Market Loan ("CMML") facility. These rates have been reduced on renewal of these facilities on 30 April 2014. A rate of 1.25% above base rate will be applied in relation to overdrafts and a rate of 1.25% above LIBOR will be applied to the CMML facility. The bank borrowings are secured on the assets of the Company and the Group.

The Group has the following undrawn borrowing and overdraft facilities:

	2014 £'000	2013 £'000
Floating rate		
- Overdraft (uncommitted) expiring in one year	5,000	5,000
- CMML (committed) facility expiring in one year	30,000	30,000
- Loan facility expiring in greater than one year	15,000	9,000
	50,000	**44,000**

b) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £36,948,000 (2013: £7,240,000). 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.

25. Derivative financial instruments

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

	2014 Non-current Liabilities £'000	2013 Non-current Liabilities £'000
Interest rate swaps – cash flow hedges	74	176

The notional principal amounts of the outstanding interest rate swap contracts at 28 February 2014 were £5,500,000 (2013: £7,500,000). This interest rate swap amortises as repayments are made of the underlying term loan, finally maturing on 15 October 2015.

The movement on the hedging reserve within shareholders' equity is shown within note 30.

In accordance with IFRS 13 "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 (2013: level 3).

26. 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:

	2014 £'000	2013 £'000
Deferred tax asset to be recovered after more than 12 months	(705)	(609)
Deferred tax liabilities to be recovered after more than 12 months	3,279	4,623
Deferred tax liabilities (net)	**2,574**	**4,014**

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

2014	Deferred tax liabilities £'000	Deferred tax assets £'000	Net £'000
At 1 March 2013	4,623	(609)	4,014
Credited to income statement (note 12)	(1,232)	(121)	(1,353)
(Credited) charged directly to equity	(450)	25	(425)
Acquisitions	338	-	338
At 28 February 2014	**3,279**	**(705)**	**2,574**

26. Deferred income tax liabilities (continued)

2013	Deferred tax liabilities £'000	Deferred tax assets £'000	Net £'000
At 1 March 2012	3,799	(574)	3,225
Charged (credited) to income statement (note 12)	386	(43)	343
Charged directly to equity	438	8	446
At 28 February 2013	**4,623**	**(609)**	**4,014**

2014	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing Differences £'000	Total £'000
At 1 March 2013	3,229	(41)	961	(135)	4,014
(Credited) charged to income statement	(1,298)	(44)	103	(114)	(1,353)
Acquisitions	338	-	-	-	338
(Credited) charged directly to equity	-	-	(450)	25	(425)
At 28 February 2014	**2,269**	**(85)**	**614**	**(224)**	**2,574**

2013	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing Differences £'000	Total £'000
At 1 March 2012	3,063	(65)	423	(196)	3,225
Charged to income statement	166	24	100	53	343
Charged directly to equity	-	-	438	8	446
At 28 February 2013	**3,229**	**(41)**	**961**	**(135)**	**4,014**

The Finance Act 2013, which was substantively enacted on 17 July 2013, included provisions to reduce the rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015. Accordingly, deferred tax balances have been revalued at the lower rate of 20% in these financial statements.

27. Deferred income due in greater than one year

	2014 £'000	2013 £'000
Warranty income	5,634	5,452
	5,634	**5,452**

Deferred income relates to used car warranty products sold by the Group. These warranty policies can be taken out over 12, 24 or 36 months with income received in advance of this period being released on a straight-line basis over the life of the policies. There is an additional £2,688,000 included in 'Accruals and deferred income' in current trade and other payables in respect of such warranties recognising the amount to be released over the next 12 months (2013: £1,264,000).

28. 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. Contributions into the defined contribution section ceased on 31 May 2013, upon the implementation of a new group personal pension arrangement. 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 2014 are estimated to be £380,000.

The Group has applied IAS 19 (Revised) 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 (Revised) figures and disclosures have been based was at 5 April 2012. 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:

	Market Value 28 February 2014 £'000	**Market Value 28 February 2013 £'000**
Equities	11,683	13,553
Bonds	21,710	19,974
Other	1,026	650
	34,419	**34,177**

In line with the requirements of IAS 19 (revised) for accounting periods commencing on or after 1 January 2013, the expected return on the assets as at 28 February 2013 was 4.5%. This is equal to the discount rate used in the calculation of the interest income for the period ending 28 February 2014.

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

	2014 £'000	**2013 £'000**
Fair value of Scheme assets	34,419	34,177
Present value of funded obligations	(31,350)	(29,999)
Asset on the balance sheet	**3,069**	**4,178**

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

	2014 £'000	**2013 As restated (note 1) £'000**
Opening fair value of Scheme assets	34,177	31,706
Interest income	1,514	1,451
Actuarial (losses) gains	(188)	1,697
Employer contributions	457	578
Benefits paid	(1,339)	(1,002)
Expenses recognised in the income statement	(202)	(253)
As at end of year	**34,419**	**34,177**

28. Retirement benefit obligations (continued)

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

	2014 £'000	2013 £'000
Opening fair value of Scheme liabilities	29,999	30,016
Interest cost	1,320	1,372
Actuarial losses (gains)	1,370	(387)
Benefits paid	(1,339)	(1,002)
Closing fair value of Scheme liabilities	**31,350**	**29,999**

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

	2014 £'000	2013 As restated (Note 1) £'000
Expenses	202	253
Net interest income (note 11)	(194)	(79)
Total, included in income statement	**8**	**174**

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

	2014 £'000	2013 As restated (Note 1) £'000
Expected return on Scheme assets	1,514	1,451
Actuarial (losses) gains	(188)	1,697
	1,326	**3,148**

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

	2014	2013
Discount rate	4.3%	4.5%
Limited Price Indexation ("LPI") pension increases	3.2%	3.2%
Inflation rate	2.3%	2.2%

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

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

	2014	2013
Male	22	22
Female	24	24

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

	2014	2013
Male	24	24
Female	26	26

28. Retirement benefit obligations (continued)

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

	2014 £'000	2013 As restated (Note 1) £'000
Actuarial (losses) gains	(1,558)	2,084
Related deferred tax asset (liability) (note 26)	312	(438)
Effect of change in tax rate (note 26)	138	-
Total, included within retained earnings	**(1,108)**	**1,646**
Cumulative actuarial (losses) gains	**(1,342)**	**216**

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Defined benefit obligation	(31,350)	(29,999)	(30,016)	(26,726)	(27,591)
Scheme assets	34,419	34,177	31,706	29,021	27,096
Surplus (deficit)	**3,069**	**4,178**	**1,690**	**2,295**	**(495)**
Experience adjustments on liabilities	-	1,478	-	-	63
Experience adjustments on assets	(188)	1,550	1,489	1,319	4,254

Sensitivity analysis

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

Change in assumption:	**Approximate impact on current surplus :** **£'000**
Decrease discount rate by 0.25% p.a.	(1,285)
Increase rate of inflation by 0.25% p.a.	(1,097)
Increase life expectancy by 1 year	(909)

29. Ordinary shares, share premium and other reserves

2014	**Ordinary shares of 10p each Number of Shares ('000)**	**Ordinary shares £'000**	**Share premium £'000**	**Shares to be issued £'000**	**Other reserve £'000**	**Total £'000**
At 1 March 2013	200,076	20,008	60,727	2,000	8,820	91,555
Shares issued during the year	136,707	13,670	38,330	(2,000)	-	50,000
Costs associated with issuance of ordinary shares	-	-	(2,328)	-	-	(2,328)
At 28 February 2014	**336,783**	**33,678**	**96,729**	**-**	**8,820**	**139,227**

29. Ordinary shares, share premium and other reserves (continued)

Pursuant to a non-pre-emptive placing which was approved by shareholders on 7 June 2013, the Company allotted 131,578,939 shares which were admitted to AiM on 10 June 2013.

The shares to be issued reserve represented the contracted subscription of shares by the vendors of the Dobies (Carlisle) business, acquired in January 2013. The subscription completed during this year and the 5,128,205 associated shares were admitted to AiM on 28 June 2013.

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

2013	**Ordinary shares of 10p each Number of Shares ('000)**	**Ordinary shares £'000**	**Share premium £'000**	**Shares to be issued £'000**	**Other reserve £'000**	**Total £'000**
At 1 March 2012	199,278	19,928	60,506	-	8,820	89,254
Shares issued during the year	798	80	221	2,000	-	2,301
At 28 February 2013	**200,076**	**20,008**	**60,727**	**2,000**	**8,820**	**91,555**

Share Option Schemes

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

As disclosed in the Consolidated Income Statement on page 46 a share based payments charge of £195,000 (2013: £99,000) has been recognised during the year, in relation to the schemes as described below.

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

Award Date	**Type**	**Granted / Outstanding at 28 February 2014 No of shares**	**Granted / Outstanding at 28 February 2013 No of shares**	**Exercise Price**	**Date from which exercisable**	**Expiry Date**
4 May 2007*	CSOP	111,111	111,111	81.00p	4 May 2010	4 May 2017
13 Jun 2007*	CSOP	270,096	270,096	77.75p	13 Jun 2010	13 Jun 2017
1 Aug 2007*	CSOP	591,549	591,549	71.00p	1 Aug 2010	1 Aug 2017
28 Aug 2007*	CSOP	169,231	169,231	65.00p	28 Aug 2010	28 Aug 2017
7 Sep 2007*	CSOP	181,818	181,818	66.00p	7 Sep 2010	7 Sep 2017
4 Jan 2008*	CSOP	190,000	190,000	40.00p	4 Jan 2011	4 Jan 2018
26 Feb 2008*	CSOP	10,000	10,000	43.00p	26 Feb 2011	26 Feb 2018
1 Apr 2008*	CSOP	58,000	58,000	40.00p	1 Apr 2011	1 Apr 2018
21 May 2008*	CSOP	167,200	167,200	44.00p	21 May 2011	21 May 2018
27 Jun 2008*	CSOP	8,800	8,800	38.30p	27 Jun 2011	27 Jun 2018
18 May 2010	Parallel	-	1,240,000	36.75p	19 May 2013	19 May 2020
28 Nov 2011	CSOP	1,360,000	1,430,000	26.00p	1 Aug 2015	28 Nov 2021
12 Jun 2012	CSOP	2,400,000	2,400,000	27.50p	1 Aug 2016	12 Jun 2022
24 Oct 2012	CSOP	2,950,000	3,040,000	39.25p	1 Aug 2016	12 Jun 2022
20 Aug 2013	LTIP	1,461,676	-	0.00p	20 Aug 2016	20 Aug 2018
30 Oct 2013	CSOP	1,420,000	-	59.50p	30 Oct 2017	30 Oct 2023
		11,349,481	**9,867,805**			

*Vested

Notes to the Consolidated Financial Statements (continued)

29. Ordinary shares, share premium and other reserves (continued)

Share Option Schemes (continued)

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

	2014 No of share options	2013 No of share options
At beginning of year	9,867,805	10,767,805
Granted	2,881,676	5,490,000
Lapsed	(1,240,000)	(6,100,000)
Forfeited	(160,000)	(290,000)
At end of year	**11,349,481**	**9,867,805**

The weighted average share price during the year was 51.8p (2013: 33.3p).
The weighted average fair value of CSOP options granted during the year, determined using the Black-Scholes model was 8p (2013: 9p) per option.

Significant inputs into the Black-Scholes model for all CSOP 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	1.0%
Dividend yield	2%

The weighted average fair value of LTIP options granted during the year, determined using the Black-Scholes model was 42p per option.

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

Vesting period	3 years
Expected volatility	20%
Option life	2 years
Expected life	5 years
Annual risk-free interest rate	1.0%
Dividend yield	2%

The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices since the admission of Vertu Motors plc to AiM. This is then adjusted for events not considered to be reflective of the volatility of the share price going forward.

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.

29. Ordinary shares, share premium and other reserves (continued)

Share Option Schemes (continued)

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

The number of vested options issued prior to 28 June 2008, which remain outstanding are shown in the table on page 79.

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

The CSOP options issued on 12 June 2012 may only be exercised if the average share price of the company over any continuous period of 30 days between 1 August 2015 and 31 July 2016 is above 38p then 50% of the options vest. If the share price is between 38p and 45p then a pro-rata proportion of between 50% and 100% of the options vest. At an average share price of below 38p then none of the options are exercisable.

CSOP options issued on 24 October 2012. These options may only be exercised if the average share price of the company over any continuous period of 30 days between 1 August 2015 and 31 July 2016 is above 45p then 50% of the options vest. If the share price is between 45p and 49p then a pro-rata proportion of between 50% and 100% of the options vest. At an average share price of below 45p then none of the options are exercisable

The following CSOP share options were issued during the financial year to 28 February 2014, none of these options were issued to the executive directors of Vertu Motors plc.

1,420,000 CSOP options were issued on 30 October 2013. These options may only be exercised if the average share price of the company over at least one continuous period of 30 days between 1 August 2016 and 31 July 2017 is above 70p then 100% of the options vest. At an average share price of below 70p none of the options are exercisable.

c) Parallel Options

On 20 August, 27 August and 29 October 2009 'parallel' options were granted as the performance criteria attached to existing original share options in issue meant that, while they may vest and become exercisable, they were significantly "under water" and therefore unlikely to have any value. These options ran 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 could not exercise both. On 31 July 2013 all of the parallel share options in issue lapsed.

d) Long Term Incentive Plan ("LTIP")

On 20 August 2013 long-term incentive awards over 1,461,676 shares were made to executive directors and senior managers under the Long Term Incentive Plan ("LTIP") which may vest in March 2016. These awards took the form of £Nil value share options where the vesting is subject to targets based on the achievement of absolute growth in the Company's total shareholder return ('TSR'), and relative growth in TSR against FTSE small cap index (excluding investment trusts). Further detail on the vesting conditions is given in the Directors Remuneration Report on page 34 of the Financial Statements.

Notes to the Consolidated Financial Statements (continued)

30. Hedging reserve

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

	2014 £'000	2013 £'000
At beginning of year	(133)	(159)
Fair value gains on derivative financial instruments during the year	102	34
Deferred taxation on fair value gains during year	(25)	(8)
At end of year	**(56)**	**(133)**

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

	2014 £'000	2013 £'000
Net increase (decrease) in cash and cash equivalents	29,708	(5,619)
Cash inflow from increase in borrowings	-	(6,060)
Cash outflow from repayment of borrowings	8,000	2,000
Cash movement in net cash (debt)	**37,708**	**(9,679)**
Capitalisation of loan arrangement fees	30	128
Amortisation of loan arrangement fees	(88)	(173)
Non-cash movement in net debt	**(58)**	**(45)**
Movement in net cash (debt)	**37,650**	**(9,724)**
Opening net (debt) cash	**(6,214)**	**3,510**
Closing net cash (debt)	**31,436**	**(6,214)**

32. Cash flow from movement in working capital

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

2014

	Inventories (Note 20) **£'000**	**Current Trade and other receivables** (Note 21) **£'000**	**Trade and other payables £'000**	**Total working capital movement £'000**
Trade and other payables (Note 23)			(391,772)	
Deferred consideration (Note 18)			(2,600)	
Deferred income (Note 27)			(5,634)	
At 28 February 2014	334,452	42,971	(400,006)	
At 28 February 2013	250,443	43,939	(304,355)	
Balance sheet movement	**(84,009)**	**968**	**95,651**	
Acquisitions (Note 17 (a)-(d))	15,517	1,648	(5,965)	
Disposals (Note 17 (e))	(2,765)	-	619	
Deferred consideration for disposal in the year (Note 17 (e))	-	150	-	
Movement excluding business combinations	**(71,257)**	**2,766**	**90,305**	**21,814**
Pension related balances				(255)
Decrease in capital creditors				2,228
Increase in interest accrual				(9)
Revised movement				**23,778**

2013

	Inventories (Note 20) **£'000**	**Current Trade and other receivables** (Note 21) **£'000**	**Trade and other payables £'000**	**Total working capital movement £'000**
Trade and other payables (Note 23)			(295,052)	
Deferred consideration			(3,851)	
Deferred income (Note 27)			(5,452)	
At 28 February 2013	250,443	43,939	(304,355)	
At 29 February 2012	208,436	28,248	(243,463)	
Balance sheet movement	**(42,007)**	**(15,691)**	**60,892**	
Acquisitions	7,871	310	(773)	
Deferred consideration for acquisitions in the year	-	-	(3,851)	
Movement excluding business combinations	**(34,136)**	**(15,381)**	**56,268**	**6,751**
Pension related balances				(315)
Decrease in capital creditors				(3,513)
Increase in interest accrual				49
Exceptional interest				318
Revised movement				**3,290**

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.

Contingent liabilities

Under sections 394A and 479C of the Companies Act 2006, the parent company Vertu Motors plc has guaranteed all outstanding liabilities to which the subsidiaries listed on page 51 were subject at the end of 28 February 2014 until they are satisfied in full. These liabilities total £374,409,000 (2013: £318,484,000), including intercompany loans of £63,359,000 (2013: £61,416,000). Such guarantees are enforceable against Vertu Motors plc by any person to whom any such liability is due.

34. Commitments

a) Capital Commitments

Capital commitments in respect of property, plant and equipment amounting to £1,499,000 were outstanding as at 28 February 2014 (2013: £2,187,000).

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, ignoring property tenant only lease breaks, are as follows:

	2014		2013	
	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	7,195	1,821	6,203	1,601
Later than 1 year and no later than 5 years	26,312	599	23,265	600
Later than 5 years	44,059	-	49,709	-
	77,566	**2,420**	**79,177**	**2,201**

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 2014 is set out in the Directors' Remuneration Report on page 39 to 40.

Robert Forrester sits on the board of Trusted Dealers Limited as an unpaid non-executive director. Trusted Dealers Limited operates a used car sales website. In the year ended 28 February 2014, the value of services provided by Trusted Dealers Limited to the Group was £100,000. There were no amounts outstanding at 28 February 2014 in respect of these services provided.

35. Related party transactions (continued)

Nigel Stead, a Director of the Company also sits on the Board of Prohire plc. The Group sells vehicles and provides aftersales services to Prohire plc on normal commercial terms. In the year ended 28 February 2014, sales of vehicles to Prohire plc totalled £937,000 (2013 : £3,097,000). The value of aftersales services invoiced in the same period was £1,000 (2013: £30,000). There were no amounts outstanding from Prohire plc in respect of these supplies at 28 February 2014 (2013: £3,600).

William Teasdale, a Director of the Company also sits on the Board of Remedios Limited. Remedios Limited provides environmental investigation services to the Group on normal commercial terms. In the year ended 28 February 2014, the value of such services provided was £40,000 (2013: £48,000). £5,000 was unpaid at 28 February 2014 in respect of these services received (2013: nil).

During the year to 28 February 2014, Robert Forrester bought four vehicles with a total purchase price of £191,503, from the Group. Two of these four vehicles were sold back to the Group for £80,942 during the year. Similarly Michael Sherwin purchased two vehicles with a total purchase price of £108,163, selling one of these back to the Group for £45,239 in the financial year. No profit or loss was made in respect of these transactions. All of these transactions were pursuant to an employee vehicle ownership plan available to executive directors and certain senior managers. No outstanding balances were due to the Group in respect of these transactions at 28 February 2014.

36. Post balance sheet events

On 7 March 2014 the Group disposed of a disused property at Haydn Road, Nottingham for cash proceeds of £600,000. The net book value of the asset at the date of disposal was £600,000 following an exceptional impairment charge of £300,000 in respect of this property included within total exceptional charges of £1.2m in the year to 28 February 2014. Therefore there was no profit or loss on disposal post year end.

On 6 May 2014 the Group announced that it had acquired the entire issued share capital of Hillendale Group Limited, which operates a Land Rover dealership in Burnley, Lancashire and a Jaguar dealership in Bolton, Lancashire for an estimated consideration of £8.2m, consideration included £2m of shares issued at 58.64p with the remainder met from the Group's existing cash resources.

Independent Auditors' Report to the members of Vertu Motors plc

Report on the parent company financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the parent company's affairs as at 28 February 2014;
- 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The parent company financial statements (the "Financial Statements"), which are prepared by Vertu Motors plc, comprise:

- the company balance sheet as at 28 February 2014; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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). In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Certain disclosures required by the financial reporting framework have been presented elsewhere in the Annual Report, rather than in the notes to the Financial Statements. These are cross-referenced from the Financial Statements and are identified as audited.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the Financial Statements.

In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of the Directors' Responsibilities set out on page 21, 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 ISAs (UK & 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.

Other matter

We have reported separately on the Group financial statements of Vertu Motors plc for the year ended 28 February 2014.

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
7 May 2014

Company Balance Sheet

As at 28 February 2014

	Note	2014 £'000	2013 As restated (note 1) £'000
Fixed assets			
Tangible assets	2	2,305	1,806
Investments	3	88,105	59,328
Loans to Group undertakings	4	3,000	3,000
		93,410	**64,134**
Current assets			
Debtors			
- due within one year	5	73,588	54,968
- due after one year	5	192	-
Cash at bank and in hand		39,930	31,640
Total current assets		**113,710**	**86,608**
Creditors: amounts falling due within one year	7	**(45,542)**	**(34,986)**
Net current assets		**68,168**	**51,622**
Total assets less current liabilities		**161,578**	**115,756**
Creditors: amounts falling due after more than one year	8	**(10,354)**	**(19,516)**
Net assets		**151,224**	**96,240**
Capital and reserves			
Called up share capital	11	33,678	20,008
Share premium account	11	96,729	60,727
Shares to be issued	11	-	2,000
Other reserve	11	8,820	8,820
Hedging reserve	12	(56)	(133)
Profit and loss account	13	12,053	4,818
Total shareholders' funds	15	**151,224**	**96,240**

These financial statements, on pages 92 to 104, have been approved for issue by the Board of Directors on 7 May 2014.

Robert Forrester
Chief Executive

Michael Sherwin
Finance Director

Notes to the Company Financial Statements

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

1. Accounting Policies

Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of derivative financial instruments to fair value and in accordance with Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been consistently applied throughout the year, are set out below.

No profit and loss account is presented by the Company, as permitted under section 408 of the Companies Act 2006. The profit of the Company for the year ended 28 February 2014 was £9,566,000 (2013: loss of £662,000).

The consolidated financial statements include the results of all subsidiaries wholly owned by Vertu Motors plc as listed on page 97 to 98 of these financial statements. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2014 by virtue of s479C of Companies Act 2006. Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2013 by virtue of s394A of Companies Act 2006. In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the Company has given a statutory guarantee of all the outstanding liabilities as at 28 February 2014 of the subsidiaries listed below, further detail of which is provided in note 33 to the consolidated financial statements on page 88.

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2014 by virtue of s479C Companies Act 2006 are:

Bristol Street Commercials (Italia) Limited
Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Compare Click Call Limited
Dobies (Carlisle) Limited
Grantham Motor Company Limited
Macklin Property Limited
Tyne Tees Finance Limited
Vertu Motors (AMC) Limited
K C Mobility Solutions Limited
Vertu Motors (Property) Limited

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2014 by virtue of s394A of Companies Act 2006 are:

Blake Holdings Limited
Bristol Street (No.1) Limited
Bristol Street (No.2) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
BSH Pension Trustee Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
Dunfermline Autocentre Limited
Vertu Motors (Pity Me) Limited
Vertu Motors (Durham) Limited
National Allparts Limited
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (Finance) Limited
Vertu Motors (Retail) Limited
Vertu Motors Third Limited
Boydslaw 103 Limited
Widnes Car Centre (1994) Limited
Widnes Car Centre Limited

The auditors' remuneration for audit and other services was £25,000 (2013: £25,000).

1. Accounting Policies (continued)

Prior year restatement

Warranty Provision

Following a review during the year of the accounting treatment of income received in respect of used vehicle warranty policies sold by the Group, the directors believe that presenting this balance as Deferred Income, in the case of income due in greater than one year, would more accurately reflect the nature of the underlying transaction.

The effect has been the balance of £5,452,000 within non-current liabilities at 28 February 2013 referred to as 'Provisions for other liabilities' has been renamed 'Deferred Income'.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is provided at rates calculated to write off the cost of tangible fixed assets less their estimated residual values, on a straight-line basis over their estimated useful lives as follows:

Computer equipment	16.6% - 50%
Office equipment	25%

Investments

Investments in subsidiary undertakings are stated at cost, less provision for impairment.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

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 sufficent 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.

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.

Warranty product income

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

When the income is received it is recognised initially as deferred income and is released to the income statement on a straight-line basis over the life of each warranty policy.

Notes to the Company Financial Statements (continued)

1. Accounting Policies (continued)

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.

No options have been granted to employees of subsidiary companies.

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 9. Movements on the hedging reserve are shown in note 12. 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.

The Company is exempt from providing the required disclosures of FRS 29 ("Financial Instruments: Disclosures") by virtue of the fact that the required disclosures are included in note 25 of the consolidated Group financial statements on page 78.

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.

Notes to the Company Financial Statements (continued)

1. Accounting Policies (continued)

Derivative financial instruments (continued)

Cash flow hedges (continued)

Amounts accumulated in equity are recycled in the profit and loss account in the years when the hedged item affects profit and loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the profit and loss account within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the profit and loss account within finance income or expense.

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

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss account on a straight-line basis over the period of the lease.

2. Tangible assets

	Computer Equipment £'000	Office Equipment £'000	Total £'000
Cost			
At 1 March 2013	4,090	315	4,405
Additions	1,370	46	1,416
Disposals	(67)	(11)	(78)
Intercompany transfers	-	8	8
At 28 February 2014	**5,393**	**358**	**5,751**
Accumulated Depreciation			
At 1 March 2013	2,418	181	2,599
Depreciation charge	846	64	910
Disposals	(60)	(11)	(71)
Intercompany transfers	-	8	8
At 28 February 2014	**3,204**	**242**	**3,446**
Net Book Value			
At 28 February 2014	**2,189**	**116**	**2,305**
At 28 February 2013	**1,672**	**134**	**1,806**

Notes to the Company Financial Statements (continued)

3. Fixed asset investments

	2014 £'000	2013 £'000
Cost and net book value		
At beginning of year	59,328	54,268
Additions	31,177	5,060
Impairment of investment in Bristol Street Commercials (Italia) Limited	(2,400)	-
At end of year	**88,105**	**59,328**

The impairment charge in the year is in relation to the investment held in Bristol Street Commercials (Italia) Limited following the sale of the trade and assets of that company in May 2013 as described in note 17(e) to the consolidated financial statements.

Vertu Motors plc, the Company, as at 28 February 2014 and 28 February 2013, invested in 100% of the ordinary share capital of the following significant subsidiary undertakings, incorporated in the United Kingdom:

Company	**Principal activity**
Bristol Street First Investments Limited	Motor retailer
Bristol Street Fourth Investments Limited	Motor retailer
Vertu Motors (VMC) Limited	Motor retailer
Grantham Motor Company Limited	Motor retailer
Vertu Motors (Chingford) Limited	Motor retailer
Vertu Motors Third Limited	Vehicle price comparison website
Macklin Property Limited	Property company
Vertu Motors (Property) Limited	Property company
BSH Pension Trustee Limited	Pension scheme trustee
Vertu Motors (Finance) Limited	Finance company
Boydslaw 103 Limited *	Holding company
Vertu Motors (Durham) Limited *	Holding company
Bristol Street Fifth Investments Limited *	Holding company (dormant subsidiaries)
Blake Holdings Limited *	Holding company (dormant subsidiaries)
Bristol Street Group Limited *	Holding company
Widnes Car Centre (1994) Limited *	Holding company
Vertu Motors (Pity Me) Limited *	Dormant company
Bristol Street Commercials (Italia) Limited**	Dormant company
Vertu Fleet Limited	Dormant company
Vertu Motors (Retail) Limited	Dormant company
Bristol Street Fleet Services Limited *	Dormant company
Vertu Motors (AMC) Limited	Dormant company
Motor Nation Car Hypermarkets Limited	Dormant company
Bristol Street Limited	Dormant company
Bristol Street (No. 1) Limited *	Dormant company
Bristol Street (No. 2) Limited *	Dormant company
National Allparts Limited *	Dormant company
Tyne Tees Finance Limited *	Dormant company
Merifield Properties Limited *	Dormant company
Peter Blake Limited *	Dormant company
Peter Blake (Chatsworth) Limited *	Dormant company
Peter Blake (Clumber) Limited *	Dormant company
Dunfermline Autocentre Limited *	Dormant company
Typocar Limited	Dormant company
Widnes Car Centre Limited *	Dormant company
KC Mobility Solutions Limited *	Dormant company
Compare Click Call Limited	Dormant company
Dobies (Carlisle) Limited	Dormant company

Notes to the Company Financial Statements (continued)

3. Fixed asset investments (continued)

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), were acquired in the year ended 28 February 2014:

Company	Principal activity
Albert Farnell Limited	Motor retailer
Newbolds Garages (Mansfield) Limited *	Motor retailer***
Brookside (1998) Limited *	Motor retailer***
Nottingham TPS LLP*	Motor retailer***

* Held indirectly by the Company.

** On 31 May 2013 the Group disposed of the trade and assets of this subsidiary, thereafter the company ceased to trade. Prior to this, the principal activity of this subsidiary was a commercial vehicle retailer.

*** On 29 November 2013 the trade and assets of this subsidiary were transferred to other wholly owned subsidiaries of the Group, thereafter this subsidiary ceased to trade.

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

4. Loans to Group undertakings

	2014 £'000	2013 £'000
Loans to Group undertakings	3,000	3,000

Loans to Group undertakings are unsecured, accrue interest at Bank of England base rate plus 3% and are repayable on 31 August 2015.

5. Debtors

	2014 £'000	2013 £'000
Amounts falling due within one year:		
Trade debtors	697	255
Amounts owed by Group undertakings	68,150	49,384
Deferred tax asset (note 6)	462	283
Value Added Tax	1,651	2,509
Prepayments and accrued income	2,628	2,537
	73,588	**54,968**
Amounts falling due after more than one year:		
Other debtors	192	-
	192	**-**

Amounts owed by Group undertakings are unsecured, bear no interest and have no fixed repayment date.

Other debtors falling due after more than one year represents redeemable preference shares received as part consideration for the disposal of the Company's heavy truck business on 31 May 2013 as described in note 17 (e) to the consolidated financial statements.

6. Deferred tax asset

	2014 £'000	2013 £'000
At beginning of year	283	341
Credited/(charged) to the profit and loss account	204	(50)
Charged directly to equity	(25)	(8)
At end of year	**462**	**283**

Notes to the Company Financial Statements (continued)

6. Deferred tax asset (continued)

The amounts recognised for deferred tax assets, calculated under the liability method at 20% are set out below:

	2014 £'000	2013 £'000
Depreciation in excess of capital allowances	190	166
Other short term timing differences	272	117
Total	**462**	**283**

7. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Bank borrowings (note 8)	2,000	2,000
Trade creditors	3,568	6,305
Other creditors	17,500	12,500
Corporation tax	1,940	235
Deferred consideration	1,300	1,251
Other taxation and social security	3,016	2,282
Accruals and deferred income	16,218	10,413
	45,542	**34,986**

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

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

	2014 £'000	2013 As restated (note 1) £'000
Bank borrowings	3,346	11,288
Deferred consideration	1,300	2,600
Deferred income (note 10)	5,634	5,452
Derivative financial instruments (note 9)	74	176
	10,354	**19,516**

Borrowings are repayable as follows:	2014 £'000	2013 £'000
Under 1 year	2,000	2,000
1-2 years	3,346	2,000
2-5 years	-	9,288
	5,346	**13,288**

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.

	Within one year £'000	Within two to five years £'000	Total £'000
Bank borrowings	2,000	3,346	5,346
Trade and other creditors	43,542	7,008	50,550
At 28 February 2014	**45,542**	**10,354**	**55,896**

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

	Within one year £'000	Within two to five years £'000	Total £'000
Bank borrowings	2,000	11,288	13,288
Trade and other creditors(as restated note 1)	32,986	8,228	41,214
At 28 February 2013	**34,986**	**19,516**	**54,502**

9. Derivative financial instruments

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

	2014 Long term Liabilities £'000	2013 Long term Liabilities £'000
Interest rate swaps – cash flow hedges	74	176

The notional principal amounts of the outstanding interest rate swap contract at 28 February 2014 was £5,500,000 (2013: £7,500,000).

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

The movement on the hedging reserve within shareholders' equity is shown within note 12.

10. Deferred income

Deferred income due in greater than one year comprise:

	2014 £'000	2013 £'000
Warranty income	5,634	5,452
	5,634	**5,452**

Deferred income relates to used car warranty products sold by the Group. These warranty policies can be taken out over 12, 24 or 36 months with income received in advance of this period being released on a straight-line basis over the life of the policies. There is an additional £2,688,000 included in 'Accruals and deferred income' in creditors : amounts falling due within one year, in respect of such warranties recognising the amount to be released over the next 12 months (2013: £1,264,000).

11. Called up share capital, share premium account and other reserves

2014	Ordinary shares of 10p each Number of Shares ('000)	Called up Share capital £'000	Share premium account account £'000	Shares to be Issued £'000	Other Reserve £'000	Total £'000
At 1 March 2013	200,076	20,008	60,727	2,000	8,820	91,555
Shares issued during the year	136,707	13,670	38,330	(2,000)	-	50,000
Costs associated with issuance of ordinary shares	-	-	(2,328)	-	-	(2,328)
At 28 February 2014	**336,783**	**33,678**	**96,729**	**-**	**8,820**	**139,227**

All issued shares are fully paid-up.

Pursuant to a non pre-emptive placing which was approved by shareholders on 7 June 2013, the company allotted 131,578,939 shares which were admitted to AiM on 10 June 2013.

The shares to be issued reserve represents the contracted subscription of the shares by the vendors of the Dobies (Carlisle) business acquired in January 2013. The subscription completed during the year and the 5,128,205 associated shares were admitted to AiM on 28 June 2013.

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

2013	Ordinary shares of 10p each Number of Shares ('000)	Called up Share capital £'000	Share premium account £'000	Shares to be issued £'000	Other reserve £'000	Total £'000
At 1 March 2012	199,278	19,928	60,506	-	8,820	89,254
Shares issued during the year	798	80	221	2,000	-	2,301
At 28 February 2013	**200,076**	**20,008**	**60,727**	**2,000**	**8,820**	**91,555**

Notes to the Company Financial Statements (continued)

12. Hedging reserve

	2014 £'000	2013 £'000
Cash flow hedges:		
At beginning of year	(133)	(159)
Fair value gains on derivative financial instruments during the year	102	34
Deferred taxation on fair value gains during year	(25)	(8)
At end of year	**(56)**	**(133)**

13. Profit and loss account

	2014 £'000	2013 £'000
As at beginning of year	4,818	6,677
Profit (loss) for the financial year	9,566	(662)
Dividend paid (note 14)	(2,526)	(1,296)
Share based payments adjustment (note 16)	195	99
As at end of year	**12,053**	**4,818**

14. Dividends per share

The dividends paid in the year to 28 February 2014 were 0.75p per share in total (2013: 0.65p). A final dividend in respect of the year ended 28 February 2014 of 0.5p per share, is to be proposed at the annual general meeting on 24 July 2014. The ex dividend date will be 25 June 2014 and the associated record date 27 June 2014. This dividend will be paid on 29 July 2014 and these financial statements do not reflect this final dividend payable.

15. Reconciliation of movements in shareholders' funds

	Called up share capital £'000	Share premium account £'000	Shares to be issued £'000	Other reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
As at 1 March 2013	**20,008**	**60,727**	**2,000**	**8,820**	**(133)**	**4,818**	**96,240**
Profit for the financial year	-	-	-	-	-	9,566	9,566
Dividend paid	-	-	-	-	-	(2,526)	(2,526)
Tax on items taken directly to equity					(25)	-	(25)
Share based payments charge	-	-	-	-	-	195	195
Fair value gains on derivative financial instruments	-	-	-	-	102	-	102
Shares to be issued					-		
New ordinary shares issued	13,670	38,330	(2,000)	-	-	-	50,000
Costs associated with issuance of ordinary shares	-	(2,328)	-	-	-	-	(2,328)
As at 28 February 2014	**33,678**	**96,729**	**-**	**8,820**	**(56)**	**12,053**	**151,224**

Pursuant to a non-pre-emptive placing which was approved by shareholders on 7 June 2013, the Company allotted 131,578,939 shares which were admitted to AiM on 10 June 2013.

The shares to be issued reserve represents the contracted subscription of shares by the vendors of the Dobies (Carlisle) business, acquired in January 2013. The subscription completed during this year and the 5,128,205 associated shares were admitted to AiM on 28 June 2013.

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

	Called up share capital £'000	Share premium account £'000	Shares to be issued £'000	Other reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
As at 1 March 2012	**19,928**	**60,506**	**-**	**8,820**	**(159)**	**6,677**	**95,772**
Loss for the financial year	-	-	-	-	-	(662)	(662)
Dividend paid	-	-	-	-	-	(1,296)	(1,296)
Tax on items taken directly to equity	-	-	-	-	(8)	-	(8)
Share based payments charge	-	-	-	-	-	99	99
Fair value gains on derivative financial instruments	-	-	-	-	34	-	34
Shares to be issued	-	-	2,000	-	-	-	2,000
New ordinary shares issued	80	221	-	-	-	-	301
As at 28 February 2013	**20,008**	**60,727**	**2,000**	**8,820**	**(133)**	**4,818**	**96,240**

Notes to the Company Financial Statements (continued)

16. Share based payments

For details of share based payment awards and fair values, see note 29 to the consolidated financial statements. The Company accounts include a share based payments charge for the year of £195,000 (2013: £99,000).

17. Contingencies

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

18. Directors' Remuneration

The remuneration of the Directors who served during the year from 1 March 2013 to 28 February 2014 is set out within the Directors' Remuneration Report on page 39 to 40.

19. 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:	**2014 Vehicles £'000**	**2013 Vehicles £'000**
No later than 1 year	76	140
Later than 1 year and no later than 2 years	207	179
	283	**319**

19. Related party transactions

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

20. Post balance sheet events

On 6 May 2014, the Company announced that it had acquired the entire issued share capital of Hillendale Group Limited, which operates a Land Rover dealership in Burnley, Lancashire and a Jaguar dealership in Bolton, Lancashire for an estimated consideration of £8.2m, consideration included £2m of shares issued at 58.64p with the remainder met from the Company's existing cash resources.

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