**12th May 2010**

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

## Preliminary results for the year ended 28 February 2010

Vertu Motors plc, the 9th largest UK motor retailer, announces its audited results for the year ended 28 February 2010.

| | Year ended 28 February 2010 | Year ended 28 February 2009 |
|---|---|---|
| Revenue | £818.9m | £760.8m |
| Adjusted EBITDA* | £10.5m | £7.9m |
| Adjusted operating profit* | £7.6m | £5.5m |
| Adjusted profit before tax* | £6.9m | £3.5m |
| Adjusted earnings per share* | 3.20p | 3.26p |
| EBITDA | £9.0m | £4.6m |
| Operating profit | £5.8m | £2.1m |
| Exceptional costs | £1.9m | £3.4m |
| Profit before tax | £4.6m | £0.07m |
| Earnings per share | 2.23p | 0.83p |
| Operating cash inflow | £15.8m | £21.2m |
| Net cash (debt) | £23.5m | (£3.4m) |
| Net assets per share | 45.8p | 62.2p |
| Tangible net assets per share | 37.3p | 46.2p |

* adjusted for exceptional costs, amortisation of intangible assets and share based payments credit/charge

**Financial Highlights**

- Revenue up 7.6% to £818.9m (2009 : £760.8m)
- Group margin enhanced by the recovery in used vehicle values and the richer mix of new retail, used and after-sales turnover in acquisitions
- Adjusted EBITDA increased 32.9% to £10.5m (2009 : £7.9m)
- Adjusted profit before tax increased 97.1% to £6.9m (2009 : £3.5m)
- Profit before tax increased to £4.6m (2009 : £0.07m)
- Strong cash flow generation in the period with operating cash inflow of £15.8m
- £18.7m invested in acquisitions and freehold property purchases in the period
- Balance sheet underpinned by strong freehold and long leasehold property portfolio of £66.2m (2009 : £53.3m)
- Net cash at 28 February 2010 of £23.5m reflects strong operating cashflow and £30m of equity raised in June 2009

**Operational Highlights**

- 36% increase in dealer network as sales outlets operated by the Group increased from 44 to 60 since 1 March 2009
- Total new retail volumes increased by 10.8% ( 1.1% on a like-for-like basis)
- Property portfolio split now 53% freehold (2009 : 45%)
- Group gained market share in new retail business (excluding scrappage)

- New retail car gross margins rose to 8.5% from 8.3% reflecting consistent success in achieving manufacturer targets
- Used car gross margins increased significantly from 10.4% to 12.5% reflecting rising used car values
- After-sales gross margins increased from 40.8% to 40.9% and after-sales now represents 43.1% of gross profit
- Iveco commercial division showing favourable turnaround
- Management and systems platform developed further to facilitate continued expansion
- Established Scottish operation via two acquisitions calendar year to date – will provide platform for expansion

**Current trading and Outlook**

- Current year trading performance in March has been ahead of the Board's expectations:
    - New car retail volumes in March up 16.1%
    - Manufacturer new car targets achieved at a high level resulting in strong new car margins
    - Used car volumes and margins robust in March
- Current year trading performance in April has been in line with the Board's expectations
- Group well positioned for growth in difficult market conditions
- Maiden dividend planned for 2010/11

**Robert Forrester, Chief Executive of Vertu Motors, said:**

"2009/10 proved to be a much stronger trading period than anticipated due to the twin supports of the Government's scrappage programme and the strengthening of used car values. The profitability of the Group has increased substantially with profit before tax rising from £0.07m to £4.6m.

The £30m Placing undertaken in June 2009 provided the Group with the firepower to grow the number of sales outlets significantly in the last twelve months. The Group's strong cash position and continued cash generation means we can continue our growth in 2010 and beyond and gain the scale benefits of this growth.

Current trading has been robust. Although the economic and political uncertainty in the United Kingdom poses challenges, the Board believe the Group is well positioned to continue to build a sustainable, scalable business that delivers further shareholder value, reflected in the fact that we have announced today that we intend to pay a maiden dividend in this current financial year."

An analysts' briefing will be held at the offices of Financial Dynamics at Holborn Gate, 26 Southampton Buildings, London, WC2A 1PB at 9.30am on 12 May 2010.

**For further information please contact:**


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|---|---|
| **Vertu Motors plc** | |
| Robert Forrester, CEO | On the day tel: 0207 831 3113 and thereafter Tel: 0191 491 2111 |
| Michael Sherwin, FD | Tel: 0191 491 2104 |
| | |
| **Brewin Dolphin Investment Banking** | |
| Alexander Dewar | Tel: 0845 213 2076 |
| | |
| **Panmure Gordon (UK) Limited** | |
| Andrew Burnett | Tel: 020 7459 3600 |
| | |
| **Financial Dynamics** | |
| Caroline Stewart | Tel: 020 7831 3113 |


**CHAIRMAN'S REPORT**

Since flotation in December 2006, the Group has established itself as a major player in the United Kingdom automotive retail sector. The Group is the 9th largest motor retailer by turnover and operates 56 franchised and 4 non-franchised sales operations.

The Board has maintained a consistent strategy since flotation which remains highly relevant for today. This strategy is to grow a scaled dealership Group driving performance improvements through the implementation of consistent business processes and systems. The recruitment, development and retention of high performing motor retail professionals is of paramount importance and the Board has developed its business model to ensure the culture of the Group is entrepreneurial and consistent with the encouragement of top performers. The Group's multi-channel business strategy includes the development of internet and fleet channels as well as ensuring strong financial controls are in place to control costs and maximise cash generation. This has led to the Group delivering profits, growing market share and generating strong operating cashflows throughout the recessionary period.

Our objective has been to enhance the experiences of our customers and, in turn, secure significant gains in vehicle sales market share in our local territories. This increasing local vehicle parc coupled with high levels of customer retention then drives higher after-sales activity levels. This virtuous circle of growth allowed the Group to deliver significant improvements in profitability. The Board believes operational gearing benefits will further accelerate profitability as the United Kingdom economy recovers over the next few years. Crucially, new car volumes are set to rise over this period. Over two million new cars will need to be sold per annum to maintain the current size of the total UK vehicle parc. Following a contraction in the sector these higher levels of new car sales will be sold by a smaller number of dealerships than pre-recession.

The Group has delivered against its stated strategy in 2009/10 through successfully increasing the number of sales outlets operated from 44 to 60 since 1 March 2009. A significant number of the businesses acquired in the year have the potential for performance improvements over a three to four year period to deliver higher margins and returns. These turnarounds are a key element of the Group's strategy to deliver shareholder value and to generate future earnings growth. In the year ended 28 February 2010 acquisitions generated a profit of £0.1m, despite the peak trading month of March being excluded from the results given the timing of the acquisitions undertaken.

The Group's robust Balance Sheet position with net cash of £23.5m at 28 February 2010 enables further expansion of the Group to be undertaken from existing resources. The Board is committed to continuing to build a sustainable, scalable business to deliver further shareholder value.

**Financial Commentary**

Revenue in the year increased to £818.9m (2009 : £760.8m) reflecting the impact of acquisitions made during the period. Like-for-like revenue decreased by £5.5m in the year reflecting the lower average value of used vehicle sales following the rapid decline in values in 2008 and reduced sales in the fleet sector. These impacts are partially offset by stronger sales in the new retail market in the second half of the year. The mix of sales from the dealerships acquired during the year had a significantly lower proportion of low margin fleet and commercial business, resulting in stronger margins for the enlarged business.

Adjusted EBITDA increased to £10.5m, compared to £7.9m in the year ended 28 February 2009. Enhanced market conditions driven firstly, by the introduction of the Government's scrappage scheme in May 2009 to stimulate new car sales and secondly, by a significant rebound in used car values, positively enhancing used car margins, aided the Group's profitability. In addition, the Group benefitted from cost savings made in late 2008 and reduced interest costs due to lower stock levels. EBITDA and profit before tax were £9.0m (2009 : £4.6m) and £4.6m (2009 : £0.07m) respectively. Exceptional costs of £1.9m were incurred in the period reflecting losses on property disposals and the over-hedged position of the Group's interest rate swaps which have been restructured since the year-end.

The Group has continued to focus on working capital management in the period and generated £15.8m of operating cashflow. Working capital was reduced by £5.4m in the period despite investing £3.1m in working capital in new dealerships post acquisition. Strong cash generation and the successful £30m placing, undertaken to fund acquisition growth in June 2009, has resulted in the Group having a net cash position of £23.5m at 28 February 2010 despite significant investment in new businesses in the period. The Board intends to continue to fund the acquisition of additional motor retail dealerships from these resources and to utilise the debt capacity of the Group.

**Current Trading**

March is the most important month for the profitability of UK motor retail as a consequence of the plate change and its impact on new car demand. UK new car registrations to private buyers were stronger year on year with volumes up 33.5%. This reflected a contribution of the continued success of the scrappage scheme on registrations and a public appetite for the "10" registration plate boosting demand. The Group's like-for-like volumes rose 16.1% reflecting its underweight representation in manufacturers who have dominated the scrappage market through sales of lower priced entry models. Substantial bonus income from manufacturers was earned on hitting manufacturer targets at high levels and this led to robust new car margins on retail sales.

Fleet demand for cars has been higher than the previous year as fleets seek to replace older cars, which would have been disposed of earlier in a more normal market environment.

Commercial vehicle demand for new vehicles in the UK remained significantly lower in March than in the pre-recessionary period. However, the Board is pleased to report that the financial performance of the Group's Iveco operation has continued to improve through higher like-for-like sales volumes, reduced stocking interest charges and an enhanced after-sales performance. These improvements have been aided by management changes made in early 2009 and the operation is continuing to demonstrate a turnaround in prospects.

Used car sales were robust in March with like-for-like volumes comparable to the high benchmark of March 2009. Margins are lower than the exceptional levels seen in 2009, but are in line with historic levels and used car profitability since the year-end has been in line with our expectations.

The Group's after-sales operations have performed strongly in the new financial year, benefitting from higher vehicle sales volumes achieved by the Group in recent years and enhanced customer retention aided by the Group's contact centres and its service plan products. Overall, the Board is pleased to report that the Group's profitability in March has been ahead of the Directors' expectations and April has been in line with expectations.

**Outlook**

Market conditions are likely to remain difficult in the coming year and in particular will see reduced year on year new retail vehicle sales as the impact of the scrappage scheme in the prior year distorts the comparatives. The strength of the Euro will be a critical factor in whether European manufacturers have the financial ability to stimulate the UK new retail market. The Group, however, remains well positioned to perform and, encouragingly, key product launches are generating significant consumer interest in all the franchises represented.

New retail vehicle sales contribute only 17.6% of the Group's gross profit and the Board anticipate the other key revenue streams of used cars, fleet sales and after-sales will be resilient in the coming period. Operational improvements in dealership performance continue to be gained and these coupled with the impact of acquired businesses ensure that the Board remain confident about the Group's prospects for the current financial year.

**Dividend**

As the cash generation of the underlying business grows, the Board intends to establish the payment of dividends with a maiden interim dividend payable in the second half of the current financial year. We anticipate the dividend strategy to be modest at the outset in order to retain flexibility to fund the Group's acquisition strategy, but progressive going forwards with an interim and final component.

**Board Changes**

During the year David Forbes, a Managing Director at Rothschild, was appointed as an independent Non-executive Director. In addition Michael Sherwin, previously Group Finance Director of Games Workshop Group PLC, was appointed as Finance Director. Karen Anderson became Company Secretary of the Group. These appointments have added strength and depth to the Board at this important time in the growth of the Company.

P R Williams
Non-Executive Chairman

**CHIEF EXECUTIVE'S REVIEW**

**Strategy**

The strategy of the Group is focused on creating shareholder value through delivering operational and financial improvements in our existing businesses and augmenting this by acquiring additional UK motor retail operations to add scale to the business.

**Portfolio Development**

Following the successful £30m placing to fund acquisition growth concluded in June 2009, the Group has expanded the number of sales outlets from 44 on 1 March 2009 to 60 today. These purchases of predominantly freehold based dealerships have been made with a view to improving their financial performance over a three to four year period through a virtuous circle of increased vehicle sales, while in turn generating after-sales activity from the increased vehicle parc.

Bristol Street Motor Nation, the Group's non-franchised used car sales operation, was expanded on 1 March 2009 with the opening of a green field site in Darlington, Co Durham. This business is now operating profitably into its second year.

Following the opening of Waltham Cross Vauxhall in expanded, refurbished premises in May 2009, the Group purchased Ilford Vauxhall and Chevrolet in July 2009 to create a North London market area for Vauxhall. In addition, in November 2009, the Group's Vauxhall outlets were increased to seven with the purchase of Lichfield Vauxhall in the Midlands. These businesses are all branded Bristol Street Motors and have been successfully integrated into the Group.

In June 2009 the Group purchased certain trade and assets of Brooklyn Motors plc in a pre-pack administration. This resulted in the completion of a major Ford region for the Group from Birmingham to Gloucestershire with the acquisition of two large Ford dealerships in Redditch and Worcester. In addition, Mazda outlets were acquired in Redditch and Cheltenham. Vacant showrooms in former Brooklyn dealerships in Worcester and Cheltenham were later refranchised to Fiat, bringing this franchise to the Group for the first time. It is anticipated that Alfa Romeo will be added to the Group portfolio in the coming months by its addition to the Fiat business in Worcester.

The Group strengthened its Renault operations in the period with the acquisition of Darlington Renault. In March 2010 Gloucester Renault relocated from a multi-franchise facility to a newly acquired and refurbished freehold property in the town. This activity brings the number of Renault dealerships operated by the Group to three at a time of considerable resurgence for the Renault franchise.

The Group's acquisition activity also saw it obtain the SEAT franchise in Darlington - the first Volkswagen Group franchise operated by the Group. In addition, in January 2010 the Group opened a new Hyundai operation in Exeter serving the South West of England. This operation creates a multi-franchise environment alongside Renault and brings the number of Hyundai outlets operated to two.

In August 2009, the Group opened a new Honda dealership in Mansfield utilising acquired freehold premises. The business augmented an existing, highly successful market area incorporating Retford, Lincoln, Grantham and Boston.

The Group's final acquisition of the financial year was the purchase of Dunfermline Autocentre. This highly profitable Ford dealership was the Group's first dealership in Scotland and reflects the Group's desire to build a Scottish business in the medium term. Subsequent to the year end, a further Scottish dealership was added with the acquisition of a Peugeot dealership in Paisley. This brings the total number of Peugeot dealerships operated by the Group to seven. Paisley Peugeot has been branded Macklin Motors, which going forward will be the Group's brand name for all new acquisitions in Scotland.

The Group currently operates 56 franchised, 4 non-franchised sales operations and 2 stand alone service operations from 53 United Kingdom locations. These are summarised below:

| **Dealership numbers** | **May** | **May** |
|---|---|---|
| **Car Franchises** | **2010** | **2009** |
| Ford | 17 | 14 |
| Peugeot | 7 | 6 |
| Vauxhall | 7 | 5 |
| Honda | 5 | 4 |
| Citroen | 4 | 4 |
| Renault | 3 | 2 |
| Hyundai | 2 | 1 |
| Fiat | 2 | - |
| Mazda | 2 | - |
| SEAT | 1 | - |
| Chevrolet | 1 | - |
| | **51** | **36** |
| **Commercial Vehicle Franchises** | | |
| Iveco | 3 | 3 |
| Fiat | 1 | 1 |
| | **4** | **4** |
| **Motorcycle franchise** | | |
| Honda | 1 | 1 |
| | | |
| **Non-franchise Outlets** | | |
| Bristol Street Motor Nations | 4 | 4 |
| **Sales outlets** | **60** | **45** |
| Stand alone Service Centres | 2 | 2 |
| **Total** | **62** | **47** |

All acquisitions undertaken in the year have been integrated into the Group's processes and systems and are performing in line with investment appraisals and budgets set at the time of purchase.

In line with the Group's strategy to enhance margins, the proportion of fleet and commercial new vehicle sales in the acquired dealerships (6% of turnover) is significantly lower than for the core like-for-like business (33% of turnover). This has resulted in a richer mix of new retail, used and after-sales turnover and a consequential strengthening of gross margins for the enlarged business. As we continue to acquire new dealerships we expect this growth in the retail element of sales mix to progressively increase the return on sales of the Group. Operating margins will be further enhanced by the greater freehold property mix brought with the acquisitions. As at 1 March 2009, 45% of the Group's locations were freehold whereas at 28 February 2010 this had risen to 53%.

Going forward, The Board will aim to purchase a balance of leasehold and freehold dealerships. This approach will balance immediate capital outlay with the need to generate a satisfactory return on investment over time.

In addition to the expansion of its dealership operations, the Group has purchased and refurbished a former Truck dealership in Darlington at a cost of £1m. This facility opened as the Group's central used car preparation centre on 1 May 2010 and will prepare up to 450 centrally purchased used cars per month for distribution to the Group's franchised and non-franchised used car operations. Given the likely supply constraints of used vehicles for the medium term, this facility will significantly enhance the Group's ability to supply high quality used cars on a just in time basis to the Group's operations.

**Operating Review**

***Dealership Operations***

The Group witnessed significant increases in profitability in its dealership operations in the year reflecting positive market conditions and continued organic growth in line with the Group's strategy.

| **Vehicle Unit Sales Analysis** | **2010** | **2010** | **2010** | **2009** | **% increase** |
|---|---|---|---|---|---|
| | **Core** | **Acquired*** | **Total** | **Total**** | **(decrease)** |
| New retail non-scrappage | 12,310 | 998 | 13,308 | 15,760 | (15.6) |
| Scrappage Scheme | 3,630 | 530 | 4,160 | - | - |
| New retail | 15,940 | 1,528 | 17,468 | 15,760 | 10.8 |
| New fleet and commercial | 17,009 | 301 | 17,310 | 18,287 | (5.3) |
| Used retail | 25,603 | 3,136 | 28,739 | 26,087 | 10.2 |
| | **58,552** | **4,965** | **63,517** | **60,134** | **5.6** |
| New wholesale | 1,944 | 563 | 2,507 | 1,405 | 78.4 |
| Used trade | 18,457 | 2,117 | 20,574 | 16,316 | 26.1 |
| **Subtotal** | **78,953** | **7,645** | **86,598** | **77,855** | **11.2** |
| Disposed businesses | - | - | - | 817 | - |
| **Total** | **78,953** | **7,645** | **86,598** | **78,672** | **10.1** |

*   Relates to businesses acquired or developed subsequent to 1 March 2009
** 2009 volumes include businesses acquired or disposed of in the year ended 28 February 2009

| **Revenue and Margins** | **Year ended 28 February 2010** | | | | **Year ended 28 February 2009** | | | |
|---|---|---|---|---|---|---|---|---|
| | **Revenue £'m** | **Revenue %** | **Gross Margin %** | | **Revenue £'m** | **Revenue %** | **Gross Margin %** | |
| New car retail | 210.1 | 26 | 8.5 | | 169.4 | 22 | 8.3 | |
| New fleet and commercial | 252.4 | 31 | 2.4 | | 260.6 | 34 | 2.9 | |
| Used cars | 269.6 | 33 | 12.5 | | 245.6 | 33 | 10.4 | |
| After-sales | 86.8 | 10 | 40.9 | *** | 85.2 | 11 | 40.8 | *** |
| | **818.9** | **100** | **12.4** | | **760.8** | **100** | **11.7** | |

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

New retail vehicle volumes rose by 1.1% in the year on a like-for-like basis. This compared to a market rise in the year of 19.6% in UK private new car registrations, with the increase driven by the success of the Scrappage Scheme. This relative underperformance relative to the market reflected the success of certain manufacturers not significantly represented by the Group in driving volume under the scrappage scheme. Franchises, such as Hyundai, capitalised on the availability of low priced, smaller cars compared to the Group's major manufacturer partners which have historically had the highest market shares. It is widely expected that historically large players (such as Vauxhall and Ford) will regain much of their relative position in the post-scrappage period.

The Group delivered 4,160 vehicles under the scrappage scheme in the period reflecting a 1.3% market share under the scheme and contributing approximately 5.8% of annual revenue. Overall, the Group's operations had a retail market share of private new vehicles (including scrappage registrations) of 1.7 % (2009 : 1.8%). Excluding scrappage, new retail like-for-like volumes fell 21.9% against a market fall of 17.7%. Consequently, the Group performed strongly in market share terms for its respective manufacturers and the Group received high levels of bonus earnings through achieving manufacturer targets. Margins in new car retail sales improved as a result from 8.3% to 8.5% year on year.

Fleet new vehicle sales represented 31% (2009 : 34%) of total Group turnover and are a significant element of the Group's operations. Sales include car and commercial vehicles and the latter have remained under significant pressure as economic conditions tightened. In addition, new acquisitions were largely retail in focus hence fleet and commercial sales reduced in terms of their relative contribution to the Group. Whilst UK new car registrations to the fleet sector declined by 15.9% in the year, light commercial vehicle registrations fell by 30.6% and heavy trucks fell by 40.4%. Overall, the Group saw a 7.0% fall in like-for-like fleet and commercial new vehicle sales in the year and this represented an overachievement against the market. The Group has again expanded its fleet capability within its core business and aims to continue to take market share.

The market decline in the commercial vehicle sector affected the Group due to its strong market presence in Ford and Iveco. The Group successfully reduced the very high levels of new commercial vehicle stocks present at 28 February 2009 and, as a consequence, overall car and commercial stocking charges were reduced considerably from a net charge in the year ended 28 February 2009 of £0.6m to a net income of £0.5m in the current year. This turnaround significantly boosted Group reported profits.

Lower volumes in the first half of the period in our Iveco operations combined with an historic weak after-sales performance led to the business incurring losses in the year of £0.7m against a background of historic losses (2009: loss of £0.5m). However, management changes were made in early 2009 and losses have been considerably reduced in the second half. Sales levels are significantly ahead of market trends for the year as a whole following a strong second half with like-for-like Iveco volumes in the year up 6.6% against a national fall in Iveco sales of 44.6% and destocking has significantly reduced stocking charges.

After-sales operations have also seen recent improvements through cost reductions and a focus on customer service. The Board envisages the continued turnaround of this business in the current year.

Whilst the scrappage scheme stimulated new car sales, this was in part substitution for used car sales in the period. In addition, stock scarcity in the period to September 2009 led to reduced volumes as margins were increased on stock that was difficult to replace. The used car market was down around 6% in the period, however, the Group's like-for-like volumes fell by only 1.9% as improvements in this core area of the business were made. All of this shortfall against the prior year on a like-for-like basis arose in January when significant disruption due to snow led to a 20.5% drop in like-for-like volumes. Profitability rose significantly despite the lower volume as a result of the exceptionally high levels of margins up to September 2009. Since September, used car prices have remained at high levels but have followed more usual seasonal trends with price falls following plate change months as supply continues to exceed demand. Used car margins were 13.7% in the first half (H1 2009 : 9.0%) and 11.4% in the second half (H2 2009 : 12.3%) reflecting these trends.

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

- Build an increasing local vehicle parc for after-sales through maximising new and used car sales in the local area.
- Ensure the customer has an outstanding after-sales experience through uniform customer friendly processes. For example, every car serviced receives a free wash and vacuum and free wifi is available in every customer waiting area.
- Contact centres and use of the internet make it convenient to book a service and MOT.
- Service plans which allow customers to budget for services monthly at a discounted rate are increasingly being sold through a centralised contact centre and the internet. These plans are crucial in driving long term service retention which in turn aid parts sales.
- Accident Management programme to retain customers who have an accident into the Group's ten accident repair centres.
- Continued investment in training after-sales colleagues to deliver outstanding and consistent customer experience.

Like-for-like turnover in retail servicing rose by 0.7% in the period aided in part by these strategies, the full impact of which have not yet been felt. Overall service turnover on a like-for-like basis fell by £0.6m due to a decline in warranty work provided to manufacturers as the reliability of the Group's chosen franchise partners' vehicles continued to improve. Gross profit margin in the servicing area rose from 74.7% to 75.3% reflecting the greater mix of higher margin retail sales and improvements in labour efficiency. Overall service turnover rose by £2.5m to £34.2m as a consequence of acquisitions in the period.

The parts supply business saw like-for-like turnover rise 1.9% as a consequence of price rises and increasing market share in the trade market compensating for a reduction in parts supplied through the Group's own workshops. Margins reduced from 21.5% to 20.8% as a result of this change in the mix of sales.

The market for accident repair services has seen a reduction in demand. A lower number of motor vehicle accident repairs is attributed to a combination of reduced traffic during the economic downturn and higher insurance excesses deterring private customers from having work undertaken. These trends were reversed in January and February as the adverse weather increased accident rates. Despite this, the

Group saw lower volumes over the whole period which reduced operational efficiencies.  As a result, like-for-like sales were down 4.9% and margins declined by 0.4% to 63.6%.

Following the agreement of a BSI Kitemark standard for the accident repair industry, the Group has embarked on an in depth training program and review of operating procedures and documentation at a cost of approximately £75,000.  All of the Group's operations, apart from a recently acquired centre, have now achieved the Kitemark accreditation. It is inevitable that the achievement of the Kitemark will become a significant distinguishing factor, with insurance company approved networks increasingly being limited to well equipped accident repair facilities with this Kitemark accreditation.

Overall, after-sales gross margins rose from 40.2% in the first half to 41.5% in the second half (H1 2009 : 40.4% and H2 : 41.3%).  The Group is heavily focused on growing revenues and margins in the after-sales business as a key driver of long term profitability.

Robert Forrester
Chief Executive

**FINANCE DIRECTOR'S REVIEW**

**Profit and Loss**

Revenue in the period increased by £58.1m to £818.9m (2009: £760.8m) with acquisitions in the year contributing £63.6m of additional revenue. The like-for-like revenue of the continuing operations fell by £5.5m. Following a first half performance where like-for-like revenue was £36.3m down on the previous year due largely to the lower average value of used vehicles and a depressed fleet and commercial market, the second half of the year saw an improving like-for-like performance in new retail vehicle sales.

Gross profit margins strengthened during the period as set out in the table above from 11.7% to 12.4%. Margins on new car retail units strengthened as the year progressed, while used car margins weakened slightly in the second half from the unusually high levels seen in the first half. The fleet and commercial sector saw both sales and margins under pressure throughout the year. In the key after-sales activities margins strengthened. In addition, the retail nature of the acquisitions undertaken in the period was reflected in their overall gross margin being 0.4% ahead of the core Group despite not including the peak trading month of March.

The Group generated operating profit before amortisation, share based payments charge and exceptional costs of £7.6m (2009: £5.5m). The acquired businesses performed in line with the business plans established at the time of their purchase and excluded the peak trading month of March.

In accordance with the accounting policy for property, plant and equipment, the useful lives of assets have been reviewed at the year-end. This resulted in an increase in the depreciation charge for the year of £0.4m with a further £0.1m of depreciation arising from acquisitions. The total charge for the year amounted to £2.9m (2009: £2.3m). The Board expect the charge for the current year to be at a similar level to 2010 before allowing for any further acquisitions.

Two freehold properties were sold during the year, resulting in an exceptional loss on sale of £1.3m while generating cash of £4.7m. A further exceptional charge of £0.1m has been recognised following the Board's re-evaluation of the carrying values of the remaining three freehold properties held for sale. While the timing of the disposal of these properties remains uncertain, plans are being actively pursued to realise these assets and the Board is confident of further progress in the coming year.

A further exceptional cost of £0.5m has been incurred as a result of the interest rate hedging arrangements, put in place in 2007, which became ineffective as a consequence of a reduction in the Group's debt. The hedging arrangements were restructured after the year end, and the Group now has a simplified set of swap arrangements which regulates the interest rate on £10m of borrowings at between 4.8% and 6.0%.

The net finance costs in the period have reduced by £1.3m due to the elimination of vehicle stocking interest as a cost to the Group and due to lower bank borrowings following the early repayment of debt as well as the £30m share issue in June 2009.

**Taxation**

The Group tax charge was £0.8m in the period (2009: credit of £0.8m). This represents an underlying effective rate of 28% offset by adjustments in respect of prior years of £0.6m (2009 : £1.0m). The key component of these prior year adjustments relates to retrospective claims in respect of capital allowances on the Group's dealerships. The underlying effective tax rate of the Group going forward is expected to be 28%.

**Financial Position**
The Group has a strong balance sheet with shareholders' funds of £90.5m (2009 : £57.2m), representing net assets per share of 45.8p (2009: 62.2p). Tangible net assets per share were 37.3p (2009 : 46.2p). The balance sheet is underpinned by a freehold and long leasehold property portfolio (including properties held for resale) of £66.2m (2009: £53.3m).

The Group finances its operations by a mixture of shareholders' equity funds and bank borrowings and trade credit from suppliers and manufacturer partners. The Group does not utilise interest bearing stocking facilities to fund its used cars and funds all its working capital requirements through its banking facilities and manufacturer new car stocking facilities. As at 28 February 2010, the Group had drawn down bank loans of £10.8m (2009: £16.4m). The reduction in loans in the year arose due to £6.7m of repayment of debt ahead of schedule offset by a mortgage of £1.1m, acquired with the Boydslaw acquisition. The drawn bank loans are repayable in March 2012 or through the application of proceeds from the disposal of surplus properties. During the period, the Group comfortably complied with all of the financial covenants in respect of these borrowings.

In addition to loan facilities, the Group has £20m of overdraft and other money market facilities on which it paid interest on drawn amounts at 2.25% above base rate and 2% above LIBOR respectively during the year. The facilities are available until the next review date of 30 April 2011. The Group operated with substantial cash balances for much of the year and these additional facilities are utilised to fund peak working capital requirements following plate change months. As at 28 February 2010, the Group had cash balances of £34.3m (2009: £12.9m) and as a consequence net cash of £23.5m (2009: net debt of £3.4m). The positive net cash balance at 28 February 2010 reflects the seasonal reduction in working capital, typical of the industry, which arises at the period end prior to a plate change month. Consequently, the year end net cash balance is higher than the normalised cash balances throughout the remainder of the year. This cash, and the use of an appropriate amount of gearing, will be used to fund the Group's ongoing acquisition strategy as set out above.

Subsequent to the year-end, loan notes of £1.2m were issued to the vendors of Bristol Street Motors pursuant to the Sale and Purchase Agreement dated 27 February 2007. These loan notes, payable in cash in September 2010, represent the final tranche of consideration payable under this Sale and Purchase Agreement. An amount of no more than £0.7m is also payable on deferred consideration for the purchase of Boydslaw 103 Limited (trading as Dunfermline Autocentre). This is payable in shares in the Company and will be settled in May 2010 at a price per share of 38.6p.

**Cash Flows**
The Group's net cash inflow from operating activities was £15.8m (2009: £21.2m). The Group reduced its investment in the core Group's working capital by £8.5m in the period (2009: reduction of £16.8m) of which £3.1m was reinvested in increasing post acquisition working capital in newly acquired dealerships. Working capital reductions arose principally as a result of a £6.0m reduction in new vehicle adopted stock.

Acquisitions and freehold property purchases absorbed cash of £18.0m during the year. Of this amount, £17.5m related to the purchase of freehold and long leasehold properties. In addition, with regards to total capital expenditure of £3.4m, £2.3m related to property refurbishments and developments to enhance retail environments and increase the productive capacity of the Group.

**Pensions**
During the year, and in line with the funding programme agreed with the Trustees in 2007, the Group made cash contributions to the Bristol Street defined benefit pension scheme of £1.1m (2009 : £1.0m). This scheme is closed to future membership and accrual. In the period, net assets have been reduced by £0.6m as a result of the increase in the present value of the scheme's funded obligations exceeding that of the fair value of the Scheme assets. As at 28 February 2010, a net liability in respect of defined benefit pension liabilities has been provided for of £0.5m (2009 : asset of £0.1m).

**Post balance sheet events**

Subsequent to the year-end the Group has agreed a revised funding programme with the Pension Trustees which will require the Group to make annual payments of £0.38m until the next funding review, significantly reducing the annual cash cost of the Scheme to the Group in the next three years. The Board continues to look at its options with respect to this scheme to reduce both its costs and exposure to volatility.

On 1 April 2010 the Company announced the acquisition of a Peugeot dealership in Paisley, Scotland for a maximum consideration of £2.1m, taking the number of Peugeot dealerships operated by the Group to seven. It was also announced that this dealership has been rebranded Macklin Motors, which will be the Group's brand for future dealership acquisitions in Scotland.

Michael Sherwin
Finance Director

**CONSOLIDATED INCOME STATEMENT (AUDITED)**

*For the year ended 28 February 2010*

| | Note | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Revenue** | | | |
| Continuing operations | | 755,340 | 760,810 |
| Acquisitions | | 63,582 | - |
| | | **818,922** | **760,810** |
| **Cost of sales** | | | |
| Continuing operations | | (662,027) | (671,680) |
| Acquisitions | | (55,449) | - |
| | | **(717,476)** | **(671,680)** |
| **Gross profit** | | | |
| Continuing operations | | 93,313 | 89,130 |
| Acquisitions | | 8,133 | - |
| | | **101,446** | **89,130** |
| **Operating expenses** | | | |
| Continuing operations | | (85,847) | (83,617) |
| Acquisitions | | (8,047) | - |
| | | **(93,894)** | **(83,617)** |
| **Operating profit before amortisation, share based payments charge and exceptional charges** | | | |
| Continuing operations | | 7,466 | 5,513 |
| Acquisitions | | 86 | - |
| | | **7,552** | **5,513** |
| Amortisation of intangible assets | | (209) | (183) |
| Share based payments (charge) credit | | (119) | 221 |
| Exceptional charges | 3 | (1,404) | (3,441) |
| **Operating profit** | | **5,820** | **2,110** |
| Finance income | 2 | 1,736 | 1,788 |
| Finance costs | 2 | (2,432) | (3,830) |
| Exceptional recycling of cash flow hedge reserve | 3 | (498) | - |
| Profit before tax, amortisation, share based payments charge and total exceptional charges | | 6,856 | 3,471 |
| Amortisation of intangible assets | | (209) | (183) |
| Share based payments (charge) credit | | (119) | 221 |
| Total exceptional charges | 3 | (1,902) | (3,441) |
| **Profit before tax** | | **4,626** | **68** |
| Taxation | 4 | (844) | 789 |
| **Profit for the year attributable to equity holders** | | **3,782** | **857** |
| **Basic earnings per share (p)** | 5 | **2.23** | **0.83** |
| **Diluted earnings per share (p)** | 5 | **2.23** | **0.83** |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (AUDITED)**

*For the year ended 28 February 2010*

| | Note | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| **Profit for the year** | | **3,782** | **857** |
| **Other comprehensive income** | | | |
| Actuarial losses on retirement benefit obligations | | (1,902) | (4,138) |
| Deferred tax relating to actuarial losses on retirement benefit obligations | | 532 | 1,159 |
| Cash flow hedges | 6 | - | (981) |
| Deferred tax relating to cash flow hedges | 6 | - | 275 |
| Recycling of cash flow hedge reserve to the income statement | 6 | 498 | - |
| Deferred tax on recycling of cash flow hedge reserve | 6 | (138) | - |
| **Other comprehensive income for the year, net of tax** | | **(1,010)** | **(3,685)** |
| **Total comprehensive income for the year attributable to equity holders** | | **2,772** | **(2,828)** |

**CONSOLIDATED BALANCE SHEET (AUDITED)**

*As at 28 February 2010*

| | Note | 2010<br>£'000 | 2009<br>£'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | 20,110 | 18,612 |
| Other intangible assets | | 963 | 1,043 |
| Retirement benefit asset | | - | 130 |
| Property, plant and equipment | | 67,029 | 49,813 |
| | | **88,102** | **69,598** |
| **Current assets** | | | |
| Inventories | | 166,309 | 155,698 |
| Property assets held for sale | | 4,900 | 10,250 |
| Trade and other receivables | | 22,078 | 19,791 |
| Cash and cash equivalents | | 34,347 | 12,907 |
| **Total current assets** | | **227,634** | **198,646** |
| **Total assets** | | **315,736** | **268,244** |
| **Current liabilities** | | | |
| Trade and other payables | | (201,899) | (185,056) |
| Current tax liabilities | | (3,804) | (2,370) |
| Deferred consideration | 8 | (664) | - |
| Borrowings | | (168) | (2,000) |
| **Total current liabilities** | | **(206,535)** | **(189,426)** |
| **Non-current liabilities** | | | |
| Borrowings | | (10,655) | (14,336) |
| Derivative financial instruments | | (1,434) | (1,434) |
| Deferred income tax liabilities | | (3,541) | (4,416) |
| Retirement benefit liability | | (495) | - |
| Provisions for other liabilities and charges | | (2,554) | (1,433) |
| | | **(18,679)** | **(21,619)** |
| **Total liabilities** | | **(225,214)** | **(211,045)** |
| **Net assets** | | **90,522** | **57,199** |
| **Capital and reserves attributable to equity holders of the Group** | | | |
| Ordinary shares | | 19,756 | 9,198 |
| Share premium | | 60,506 | 40,991 |
| Other reserve | | 8,328 | 7,969 |
| Hedging reserve | 6 | (672) | (1,032) |
| Retained earnings | | 2,604 | 73 |
| **Shareholders' equity** | | **90,522** | **57,199** |

**CASH FLOW STATEMENT (AUDITED)**

*For the year ended 28 February 2010*

| | Note | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| Operating profit | | 5,820 | 2,110 |
| Loss on sale of tangible fixed assets | | 12 | 14 |
| Loss on sale of properties | | 1,304 | - |
| Amortisation of intangible assets | | 209 | 183 |
| Depreciation of property, plant and equipment | | 2,945 | 2,344 |
| Decrease in inventories | | 4,831 | 8,650 |
| Increase in trade and other receivables | | (2,668) | (7,115) |
| Impairment of assets held for resale | | 100 | 1,140 |
| Increase in payables | | 2,021 | 13,674 |
| Increase in provisions | | 1,121 | 404 |
| Movement in share based payments charge (credit) | | 119 | (221) |
| **Cash generated from operations** | | **15,814** | **21,183** |
| Tax received | | 379 | 173 |
| Tax paid | | (459) | (367) |
| Finance income received | | 99 | 211 |
| Finance costs paid | | (935) | (2,751) |
| **Net cash generated from operating activities** | | **14,898** | **18,449** |
| | | | |
| **Cash flows from investing activities** | | | |
| Acquisition of businesses, net of cash, overdrafts and borrowings acquired | | (12,023) | - |
| Acquisition of freehold land and buildings | | (5,950) | - |
| Purchases of intangible fixed assets | | (129) | (156) |
| Purchases of property, plant and equipment | | (3,360) | (4,916) |
| Proceeds from disposal of property, plant and equipment | | 895 | 190 |
| Proceeds from disposal of property assets held for sale | | 3,839 | - |
| **Net cash outflow from investing activities** | | **(16,728)** | **(4,882)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Net proceeds from issuance of ordinary shares | | 29,947 | - |
| Repayment of borrowings | 7 | (6,677) | (10,119) |
| **Net cash inflow (outflow) from financing activities** | | **23,270** | **(10,119)** |
| | | | |
| **Net increase in cash and cash equivalents** | **7** | **21,440** | **3,448** |
| Cash and cash equivalents at beginning of year | | 12,907 | 9,459 |
| **Cash and cash equivalents at end of year** | | **34,347** | **12,907** |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (AUDITED)**
*For the year ended 28 February 2010*

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

*For the year ended 28 February 2009*

| | Ordinary share capital £'000 | Share premium £'000 | Other reserve £'000 | Hedging reserve £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **As at 1 March 2008** | **9,194** | **40,991** | **7,950** | **(326)** | **2,416** | **60,225** |
| Profit for the year | - | - | - | - | 857 | 857 |
| Actuarial losses on retirement benefit obligations | - | - | - | - | (4,138) | (4,138) |
| Tax on items taken directly to equity | - | - | - | 275 | 1,159 | 1,434 |
| Cash flow hedges | - | - | - | (981) | - | (981) |
| Share based payments charge | - | - | - | - | (221) | (221) |
| New ordinary shares issued | 4 | - | 19 | - | - | 23 |
| **As at 28 February 2009** | **9,198** | **40,991** | **7,969** | **(1,032)** | **73** | **57,199** |

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

**NOTES**

For the year ended 28 February 2010

## 1. Basis of Preparation

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

The Group prepares financial information under International Financial Reporting Standards (IFRS) issued by the IASB and as adopted by the European Union (EU) and on the same basis as in 2009. Further information in relation to the Standards adopted by the Group is available on the Group's website www.vertumotors.com.

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS's), this announcement does not itself contain sufficient information to comply with IFRS's. The Group published full financial statements that comply with IFRS's today and these are available on the Group's website, www.vertumotors.com.

The financial information presented for the years ended 28 February 2010 and 2009 does not constitute the Company's statutory accounts as defined in Section 434 of the Companies Act 2006, but is derived from those financial statements. The auditors' reports on the 2010 and 2009 financial statements were unqualified. A copy of the statutory accounts for 2009 has been delivered to the Registrar of Companies. Those for 2010 will be delivered following the Company's annual general meeting, which will be convened on 22 July 2010.

**Accounting policies**

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

The accounting policies adopted in this annual report are consistent with those of the Group's financial statements for the year ended 28 February 2009 and can be found on our website, www.vertumotors.com.

IAS 1 (revised) requires the presentation of a Consolidated Statement of Changes in Equity as a primary statement, separate from the Consolidated Income Statement and Consolidated Statement of Comprehensive Income. As a result, a Consolidated Statement of Changes in Equity has been included in the primary statements, showing changes in each component of equity for each year presented.

**Segmental information**

The Group has adopted IFRS 8 "Operating Segments" from the beginning of the financial year, which determines and presents operating segments based on information provided to the Group's Chief Operating Decision Maker ("CODM"), Robert Forrester, Chief Executive. As such, there has been no change in the Group's one reportable business segment following this adoption, since the Group is operated and is managed on a dealership by dealership basis. Dealerships operate a number of different business streams such as new vehicle sales, used vehicle sales and after-sales operations. Management is organised based on the dealership operations as a whole rather than the specific business streams.

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

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

| | 2010 | 2010 | 2010 | 2009 | 2009 | 2009 |
|---|---|---|---|---|---|---|
| | | | Gross | | | Gross |
| | Revenue | Revenue | Margin | Revenue | Revenue | Margin |
| | £'m | % | % | £'m | % | % |
| New car retail | 210.1 | 26 | 8.5 | 169.4 | 22 | 8.3 |
| New fleet and commercial | 252.4 | 31 | 2.4 | 260.6 | 34 | 2.9 |
| Used cars | 269.6 | 33 | 12.5 | 245.6 | 33 | 10.4 |
| Aftersales | 86.8 | 10 | 40.9* | 85.2 | 11 | 40.8* |
| | **818.9** | **100** | **12.4** | **760.8** | **100** | **11.7** |

*margin in aftersales expressed on internal and external turnover

**2. Net finance costs**

| | 2010 £'000 | 2009 £'000 |
|---|---|---|
| Interest on short term bank deposits | 122 | 211 |
| Vehicle stocking interest | 493 | - |
| Other finance income relating to Group pension scheme | 1,121 | 1,577 |
| **Finance income** | **1,736** | **1,788** |
| Bank loans and overdrafts | (1,054) | (1,653) |
| Vehicle stocking interest | - | (597) |
| Other finance costs relating to Group pension scheme | (1,365) | (1,567) |
| Other finance costs | (13) | (13) |
| **Finance costs** | **(2,432)** | **(3,830)** |

**3. Exceptional costs**

| | 2010 £'000 | 2009 £'000 |
|---|---|---|
| Loss on sale of properties | 1,304 | - |
| Reorganisation costs | - | 570 |
| Closure costs | - | 482 |
| Impairment of assets held for resale | 100 | 1,140 |
| Environmental costs | - | 400 |
| Empty property provisions | - | 571 |
| Onerous lease costs | - | 201 |
| Abortive costs | - | 77 |
| | **1,404** | **3,441** |
| Recycling of cash flow hedge reserve | 498 | - |
| | **1,902** | **3,441** |

Exceptional charges of £1.3m were incurred in the year relating to losses on the disposal of two of the Group's freehold properties. These two disposals generated £4.7m of cash and three surplus freehold properties with a net book value of £4.9m remain to be sold and are categorised as property assets held for sale. Assets held for resale have been reviewed by the Board and an additional impairment provision of £0.1m has been charged as exceptional.

In addition, the Group was significantly over-hedged at the year-end in relation to interest rate hedging, following the repayment of certain bank loans. Therefore, the over-hedged proportion of the fair value of the derivative financial instruments totalling £0.5m (2009: £Nil) has been recognised as an exceptional cost in the year and therefore recycled through the income statement.

**4. Taxation**

| | 2010<br>£'000 | 2009<br>£'000 |
|---|---|---|
| **Current tax** | | |
| Current tax charge | 1,620 | 79 |
| Adjustment in respect of prior years | (295) | (843) |
| **Total current tax** | **1,325** | **(764)** |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (151) | 138 |
| Adjustment in respect of prior years | (330) | (163) |
| **Total deferred tax** | **(481)** | **(25)** |
| | | |
| **Income tax expense (income)** | **844** | **(789)** |
| | | |
| Comprising: | | |
| Taxation – excluding exceptional items | 1,377 | 62 |
| Taxation – exceptional items | (533) | (851) |
| | **844** | **(789)** |

Factors affecting taxation expense (income) in the year

| | 2010<br>£'000 | 2009<br>£'000 |
|---|---|---|
| Profit before taxation and exceptional items | 6,528 | 3,509 |
| Exceptional costs | (1,902) | (3,441) |
| **Profit before taxation from continuing operations** | **4,626** | **68** |
| | | |
| Profit before taxation multiplied by the rate of corporation tax in the UK of 28% | 1,295 | 19 |
| | | |
| Non-deductible amortisation | 59 | 52 |
| Non-deductible expenses | 120 | 155 |
| Effect on deferred tax balances due to rate change | - | (3) |
| Small companies rate | (5) | (6) |
| Adjustments in respect of prior years | (625) | (1,006) |
| **Total tax expense (income) included in the income statement** | **844** | **(789)** |

## 5. Earnings per share

Earnings per share for the prior year have been restated to reflect the bonus element of the share placing which took place during the year, as required by IAS33. This has reduced the stated basic and diluted earnings per share from 0.93p to 0.83p.

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares during the year or the diluted weighted average number of ordinary shares in issue in the year.

The Group only has one category of potentially dilutive ordinary shares, which are share options. A calculation has been undertaken to determine the number of shares that could have been acquired at fair value (determined as the average annual market price of the Group's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

| | 2010<br>£'000 | 2009<br>£'000 |
|---|---|---|
| Profit attributable to equity shareholders | 3,782 | 857 |
| Amortisation of intangible assets | 209 | 183 |
| Share based payments (credit) charge | 119 | (221) |
| Exceptional costs | 1,902 | 3,441 |
| Tax effect of adjustments | (591) | (880) |
| **Adjusted earnings attributable to equity shareholders** | **5,421** | **3,380** |
| Weighted average number of shares in issue ('000s) | 169,224 | 103,568 |
| Potentially dilutive shares ('000s) | - | - |
| **Diluted weighted average number of shares in issue ('000s)** | **169,224** | **103,568** |
| **Basic earnings per share** | **2.23p** | **0.83p** |
| **Diluted earnings per share** | **2.23p** | **0.83p** |
| **Adjusted earnings per share** | **3.20p** | **3.26p** |
| **Diluted adjusted earnings per share** | **3.20p** | **3.26p** |

## 6. Hedging reserve

| | 2010<br>£'000 | 2009<br>£'000 |
|---|---|---|
| **Cash flow hedges:** | | |
| At beginning of year | (1,032) | (326) |
| Fair value losses on derivative financial instruments during the year | - | (981) |
| Deferred taxation on fair value losses during year | - | 275 |
| Recycling of cash flow hedge reserve through the income statement | 498 | - |
| Deferred tax on recycling of cash flow hedge reserve | (138) | - |
| **At end of year** | **(672)** | **(1,032)** |

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

| | 2010<br>£'000 | 2009<br>£'000 |
|---|---|---|
| Net increase in cash and cash equivalents | 21,440 | 3,448 |
| Cash inflow from increase in borrowings | (1,089) | - |
| Cash outflow from repayment in borrowings | 6,677 | 10,119 |
| **Cash movement in net debt** | **27,028** | **13,567** |
| Amortisation of loan arrangement fee | (75) | (75) |
| **Non cash movement in net debt** | **(75)** | **(75)** |
| **Movement in net debt** | **26,953** | **13,492** |
| **Opening net debt** | **(3,429)** | **(16,921)** |
| **Closing net cash (debt)** | **23,524** | **(3,429)** |

## 8. Acquisitions

On 26 June 2009, the Group acquired the trade and assets of certain dealerships from the receivers of Brooklyn Motors plc for total cash consideration of £7.2m, inclusive of £0.2m of fees. The fair value of the net assets acquired were also £7.2m, therefore no goodwill arose on this transaction.

On 27 July 2009, the Group acquired the trade and assets of Ilford Vauxhall and Chevrolet from Crown Motors (Dagenham) Limited, for cash consideration of £0.1m. No goodwill arose on this transaction.

On 2 November 2009, the Group acquired the trade and assets of Lichfield Vauxhall from Steve Thompson Cars Limited, for cash consideration of £2.8m. The fair value of the net assets acquired were also £2.8m, therefore no goodwill arose on this transaction.

On 7 December 2009, the Group acquired 100% of the share capital of Typocar Limited, a motor retailer operating in the UK. The Company was purchased for cash consideration of £1.0m. The fair value of the net assets acquired were £0.9m, therefore goodwill of £0.1m arose on this transaction.

Finally, on 29 January 2010, the Group acquired 100% of the share capital of Boydslaw 103 Limited, a motor retailer operating in the UK. The Company was purchased for total consideration of £2.7m, consisting of cash consideration £1.6m (inclusive of £0.1m of fees), equity of £0.4m and deferred equity consideration of £0.7m. The fair value of the net assets acquired were £1.3m, therefore goodwill of £1.4m arose on this transaction.

## 9. Events after the balance sheet date

Subsequent to the year-end the Group has agreed a revised funding programme with the Pension Trustees which will require the Group to make annual payments of £0.38m until the next funding review, significantly reducing the annual cash cost of the Scheme to the Group in the next three years. The Board continues to look at its options with respect to this scheme to reduce both its costs and exposure to volatility.

On 1 April 2010 the Company announced the acquisition of a Peugeot dealership in Paisley, Scotland for a maximum consideration of £2.1m, taking the number of Peugeot dealerships operated by the Group to seven. It was also announced that this dealership has been rebranded Macklin Motors, which will be the Group's brand for future dealership acquisitions in Scotland.