ANNUAL REPORT & ACCOUNTS

For the year ended 28 February 2010

...built on trust

Contents

Table of Contents

	Page
Chairman's Report	2
Chief Executive's Review	5
Finance Director's Review	10
Main Board Directors	13
Advisers	14
Corporate and Social Responsibility Report	15
Directors' Report	19
Corporate Governance Report	24
Remuneration Report	29
Independent Auditors' Report (consolidated financial statements)	34
Consolidated Income Statement	36
Consolidated Statement of Comprehensive Income	37
Consolidated Balance Sheet	38
Consolidated Cash Flow Statement	39
Consolidated Statement of Changes in Equity	40
Notes to the Consolidated Financial Statements	41
Independent Auditors' Report (Company financial statements)	75
Company Balance Sheet	77
Notes to the Company Financial Statements	78

Financial Diary

Annual General Meeting	22 July 2010
Interim Results 2010/11	October 2010
Final Results 2010/11	May 2011

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.

Chairman's Report (continued)

Financial Commentary (continued)

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.

Chairman's Report (continued)

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.

Chief Executive's Review (continued)

Portfolio Development (continued)

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.

Chief Executive's Review (continued)

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 Core	2010 Acquired*	2010 Total	2009 Total**	% increase (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	32	10.4	
After-sales	86.8	10	40.9	***	85.2	12	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.

Chief Executive's Review (continued)

Operating Review (continued)

Dealership Operations (continued)

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.

Chief Executive's Review (continued)

Operating Review (continued)

Dealership Operations (continued)

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%.

Finance Director's Review (continued)

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).

Finance Director's Review (continued)

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

Main Board Directors

The Board currently comprises the Directors outlined below.

Paul Williams – Non-Executive Chairman

Paul (63) was Chief Executive of Bristol Street Group Limited until its acquisition by Vertu Motors plc. Paul has over thirty years of retail experience and is well respected in the motor retail sector. This is reflected in his role as a Director of the Retail Motor Industry Federation (RMIF) and as Chairman of the National Franchised Dealer Association (NFDA).

William Teasdale – Non-Executive Director

Bill (67) is a non-executive Director of a number of private companies including British Engines Limited, Astrum Limited, Bedmax Limited in addition to being a Governor of Northumbria University. He was non-executive Director and Chairman of the Audit Committee at Reg Vardy plc between 2002 and 2006. Prior to this he was the Senior Partner at the Newcastle upon Tyne office of PricewaterhouseCoopers LLP. Bill has substantial experience of corporate transactions within the quoted company environment.

David Forbes – Non-Executive Director

David (50) is currently a Managing Director at Rothschild, where he has developed his career over the last 20 years. He qualified as a Chartered Accountant in 1984 and since then has worked for a number of organisations in corporate finance roles. His areas of expertise include mergers and acquisitions, corporate strategy and corporate finance, involving both debt and equity.

Robert Forrester – Chief Executive

Robert (40) was a Director of Reg Vardy plc between 2001 and 2006, appointed as Finance Director in 2001 and Managing Director in 2005, until the sale of the business to Pendragon plc in 2006. Prior to this he was a Director of Brookhouse Group Limited, a substantial private property investment company in the North West of England, where he was responsible for development, investment and financing of the portfolio. Robert qualified as a chartered accountant with Arthur Andersen. He is also a member of the Economic Affairs Committee of the Confederation of British Industry.

Michael Sherwin – Finance Director

Michael (51) 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. As an executive Director, Michael led a restructuring programme and developed the finance function. Michael joined Vertu from Courtaulds (UK) Limited, a private UK based clothing supplier, where he had been Finance Director since May 2009 and had overseen the successful restructuring and refinancing of the business. Michael is a qualified Chartered Accountant having trained with Price Waterhouse, where he held positions in the UK, Paris and Sydney. He was also Non-Executive Director of Plusnet plc, an AIM listed internet business, from 2004-2007.

Advisers

Nominated Adviser and Broker

Brewin Dolphin Limited
Time Central
Gallowgate
Newcastle upon Tyne
NE1 4SR

Broker

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

Solicitors

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

Independent Auditors

PricewaterhouseCoopers LLP
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

Tax Advisers

Deloitte & Touche LLP
Gainsborough House
34-40 Grey Street
Newcastle upon Tyne
NE1 6AE

Registrars

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

Financial PR Advisers

Financial Dynamics
Holborn Gate
26 Southampton Buildings
London
WC2A 1PB

Company Secretary and Registered Office

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

Corporate and Social Responsibility Report

1. Introduction

Corporate and Social Responsibility ("CSR") is at the very core of our Group's culture and values. The environmental impact of the main automotive retail business is comparatively low, however, our focus on responsible policies with regards to Health & Safety, Energy and the Environment is high. As part of our CSR strategy the Group has an active strategy to support a number of charitable and community initiatives.

2. Health and Safety and Environment

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

There are clear lines of responsibility which are communicated to all colleagues. The General Manager is the main responsible individual at each business for all Health and Safety matters supported by a site Health and Safety Co-ordinator. As the Group is growing a decision was made in late 2009 to strengthen the Health and Safety internal organisation by appointing a full time Health and Safety Manager. The Health and Safety Manager's responsibilities include; monitoring compliance to our Health and Safety systems, providing support and advice to the General Managers as well as continually assessing the quality of our systems, outputs and recommending improvements. The Health and Safety Manager also reports monthly to the Board.

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

- **Acquisitions:**

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

- **Environmental Management:**

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

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

Health and Safety and Environment (continued)

- **Energy Management and Reduction:**

As a large company, Vertu Motors plc will be participating in the Carbon Reduction Commitment (CRC) programme which commences in 2010. In preparation the Group has been collecting our gas and electric usage data via smart meters from October 2008 and to date 85% of our dealerships are equipped with smart meters. The implementation programme is ongoing due to the acquisitive nature of the Group. In addition, we have been able to reduce our energy usage by 10% across the board in 2009/10. 5 key senior managers are receiving off-site energy consultancy training and will use the knowledge gained to share best practice across the Group. Our aim is to continue to monitor and reduce our energy usage and make cost savings and investments where appropriate.

- **Health Screening and Monitoring:**

Annual and biannual screening and monitoring of colleagues working within workshop and bodyshop environments takes place.

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

Vertu Motors plc welcomed the industry initiative to raise standards across the accident repair industry and was one of the first franchised dealer groups to achieve 100% BSI Kitemark accreditation. One acquired accident repair centre is currently awaiting approval.

- **Sourcing Policies:**

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

3. Colleagues

The Group seeks to fulfil the career aspirations and potential of all colleagues. We want every colleague to enjoy coming to work, feel motivated in everything that they do and to take pride in their contributions to the Group. As the Group expands, the enthusiasm and dedication of our people is a vital factor in the Group’s success. In order to develop a culture that is positive and contributes to the Group performance, a number of core Values are used extensively in the business to signpost desired behaviours. These are set out below:

- **Values**
  - **Passion**

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

  - **Respect**

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

  - **Professionalism**

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

Colleagues (continued)

- **Values (continued)**

  - **Integrity**

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

  - **Recognition**

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

  - **Opportunity**

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

  - **Commitment**

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

- **Employment Policies**

The Group's aim is to attract and retain the best people in the automotive retail sector while observing best practice in employment policies and procedures through a commitment to:

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

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

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

- **Sharing our Success**

The Group pays attractive salaries and additional benefits to dedicated people. Every colleague is offered access to the Group's pension plan and free life insurance.

The Group encourages colleagues to become shareholders in the Company through participation in the Group's share schemes. In 2007, the Group introduced an all colleague Share Incentive Plan to further encourage colleague share ownership in the Company.

Colleagues (continued)

- **Communication**

The Group is committed to providing colleagues with information on matters of concern to them on a regular basis, so that the views of colleagues can be taken into account when making decisions that are likely to affect their interests.

Whilst individual achievement is always recognised, good teamwork is at the core of how we operate our business. At the heart of this is good communication. Every colleague has a stake in the business and we want everyone to feel that their voice can be heard. The Company utilises many formal and informal channels to achieve this, for example the Chief Executive produces a weekly blog, regular updates are posted onto a Group wide intranet site and printed newsletters are produced. Each General Manager undertakes a monthly Team Brief, updating colleagues in small groups on relevant issues impacting the Group and the dealership.

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

4. Vertu in the Community

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

Charity Support and Partnership

- **BEN**

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

Vertu is proud to be a partner of BEN. In 2010 Vertu will donate £1 to BEN for every new retail vehicle sold. This support is worth in the region of £15,000 per annum. We also encourage our colleagues to donate monthly via payroll giving and have a number of BEN Gold supporters within the Group.

- **Children in Need**

In October 2009, Vertu became an official partner of Children In Need. All of the trading businesses including Head Office participated in a variety of fundraising activities on 20 November. All colleagues are encouraged to take part, with the main theme of the day being fun for both customers and colleagues. The company matched the first £500 raised at every dealership with our fundraising total reaching £31,500. 2009 was the first year we supported Children in Need and we will continue to make this an annual event.

- **Dunston Silver Band**

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

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

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 2010.

Principal Activities

The principal activity of the Group is the provision of new and used vehicles, together with related after-sales services.

The principal activity of the Company is the provision of management services to all subsidiary statutory entities.

Business Review and Future Developments

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

The Group has a number of Key Performance Indicators ("KPI's") by which it monitors its business. These include sales volumes by channel, gross profit per unit and in the after-sales arena, measures such as workshop efficiency, billing and recovery rates.

Principal Risks and Uncertainties

Set out below are certain risk factors which could result in the actual results of the Group differing materially from expected results. These factors, as set out below, are not an exhaustive list of all the potential risks and uncertainties that could adversely impact the Group's results.

Economic Conditions
Profitability is influenced by the economic environment in the United Kingdom. Factors such as unemployment and consumer confidence impact on levels of discretionary spending, including vehicle purchases. In addition, fuel prices, foreign exchange and interest rate movements and changes to levels of taxation on vehicles also have a direct effect on the Group's sales.

Vehicle Manufacturer Dependency
Our franchised dealerships represent our Manufacturer partners, as a result the Group is dependent on these partners for a significant proportion of its profitability. Changes to the financial condition, production and distribution capabilities or reputation of any of our manufacturer partners may impact results.

Used Vehicle Prices
The value of used vehicles can decline as demand and supply of such vehicles fluctuate within the market. Declining prices reduce used vehicle margins and increase the level of vehicle write downs against the value of the Group's used vehicle inventory.

Reliance on Certain Key Members of Staff and Management
The Group is dependent on members of its senior management team and the Group's ability to attract and retain highly skilled management and personnel could impact on both performance and the ability to expand.

Liquidity and Financing Risk
The Group finances its operations through a mixture of retained profits, bank borrowings and trade credit from both suppliers and manufacturer partners. Movements in interest rates on the Group's facilities can impact profitability. In addition a withdrawal of financing facilities or failure to renew them as they expire could lead to a reduction in the trading ability of the Group.

Reliance on the Use of Estimates
The Group exercises judgement over certain accounting matters in respect of goodwill impairment, employee post retirement benefit obligations and taxation. A significant variance in these judgements could impact on the profitability of the Group.

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

Legislative Changes to Vehicle Distribution

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

Results and Dividends

The results for the year are set out in the consolidated income statement on page 36. The Group's profit on ordinary activities after taxation for the year was £3,782,000 (2009: £857,000). The Directors do not propose a dividend for this financial year (2009: £Nil).

Share Capital

On 11 May 2010, 197,557,114 Ordinary shares of 10 pence each were in issue, fully paid up and quoted on the Alternative Investment Market of the London Stock Exchange.

Directors and Their Interests

Brief particulars of the Directors are listed on page 13. Further details of the Board composition are contained in the Corporate Governance Report and details of Directors' service contracts are contained in the Remuneration Report. The Directors who served during the year ended 28 February 2010 and up to the date of signing the financial statements were:

P R Williams
R T Forrester
M Sherwin (appointed 25 February 2010)
K Anderson (resigned 25 February 2010)
W M Teasdale
D Forbes (appointed 11 August 2009)

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

The Directors who held office at 28 February 2010 and their connected persons had interests in the issued share capital of the Company as at 28 February 2010 as follows:

	28 February 2010 Ordinary Shares	**28 February 2009 Ordinary Shares**
P R Williams	2,827,485	2,827,485
R T Forrester	5,419,247	4,070,120
M Sherwin	119,000	-
D M Forbes	-	-
W M Teasdale	500,000	500,000

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

R T Forrester and W M Teasdale who, together with their connected persons, control 3.0 per cent of the issued share capital of the Company, have undertaken to Brewin Dolphin to ensure that any disposal made by them (or as far as they are able, their connected persons) of any Ordinary Shares for a period of two years from 23 December 2009 will be made in a manner designed to ensure that an orderly market can be maintained.

Derivatives and Financial Instruments

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

The Group finances its operations by a mixture of shareholders' equity funds and bank borrowings and trade credit from both suppliers and manufacturer partners. To reduce the Group's exposure to movements in interest rates, the Group seeks to ensure that it has an appropriate balance between fixed and floating rate borrowings. The Group uses interest rate swaps and collars 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 26 February 2007, comprising a £10m term loan repayable over 5 years and a revolving credit facility. On 27 March 2009, the Group utilised surplus cash resources to repay the remaining £9m of the outstanding term loan at which point the available loan under the revolving credit facility was fixed, for the remaining term to March 2010, at £14.5m. The proceeds of specified property disposals are applied to the reduction of this facility. Short-term flexibility is achieved through the Group's overdraft and short term committed money market loan facilities. As a result of the early re-payment of its term loan facility the Group held interest rate hedges over a greater value than its outstanding debt. Therefore, on 16 March 2010 the Group cancelled an interest rate swap over £5m of debt, leaving swap arrangements in place over a principle amount of £10m, effectively removing this over hedged position.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group has no significant direct exposure to foreign currency.

Charitable and Political Contributions

The Group's Corporate and Social Responsibility Report is set out on pages 15 to 18. The Group made charitable contributions totalling £14,000 (2009: £Nil) but made no political contributions (2009: £Nil).

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.

Colleagues

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

Payment of Creditors

The Company and the Group does not operate a defined code of practice regarding the payment of its creditors. The largest proportion of trade creditors in value terms relates to supplies provided by the vehicle manufacturers who have granted retail franchises to the Group. Under the terms of the franchise agreements, supplies of vehicles and parts are provided on predetermined credit arrangements to the Group and the supplier effects payments by application of a direct debit on the due date. The Group agrees appropriate payment terms with other major suppliers, when agreeing the price and other terms of purchase. Trade creditors of the Company for the year ended 28 February 2010 were equivalent to 51 days (2009: 53 days) purchases.

Independent auditors and disclosure of information to auditors

In the case of each person who was a Director of the Group at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information of which the Group’s auditors are unaware, and;
- each of the Directors has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself 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, the Directors’ Remuneration Report and the Group and Company 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 elected to prepare 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). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB).

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 IFRSs issued by IASB and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors’ Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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.

Directors' Report (continued)

Statement of Directors' Responsibilities (continued)

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

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

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

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

By order of the Board

Karen Anderson
Company Secretary
12 May 2010

Corporate Governance Report

The Combined Code

As an AIM listed Company, Vertu Motors plc does not have to comply with the Combined Code on Corporate Governance (the 'Combined Code 2008') published by the Financial Reporting Council. However, the Board embraces the principles of good corporate governance.

The following statements describe how the relevant principles and provisions set out in Section 1 of the Combined Code (2008) were applied to the Company and Group during the financial year and will continue to be relevant for the forthcoming financial year.

Board of Directors

During the year under review, the Board was made up of five members comprising two executive Directors (R T Forrester and K Anderson, who resigned on 25 February 2010, the same date that Michael Sherwin was appointed as Finance Director) and three non-executive Directors (P R Williams, W M Teasdale and following his appointment on 11 August 2009, D M Forbes). It is the Board's intention that, in the medium term, at least one half of the Board (excluding the Chairman) should comprise independent non-executive Directors. After carefully reviewing the guidance in the Combined Code, the Board believes P R Williams, W M Teasdale and following his appointment on 11 August 2009, D M Forbes to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. W M Teasdale is the senior independent Director.

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

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

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

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	10	2	3	3
P R Williams	10	2	3	3
R T Forrester	10	-	-	-
K Anderson (resigned 25 Feb 2010)	10	-	-	-
W M Teasdale	9	2	3	3
D M Forbes (appointed 11 August 2010)	6	1	1	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 Company 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 Company rests with the Chief Executive (R T Forrester) and the Finance Director (M Sherwin), the non-executive Directors fulfil an essential role in ensuring that the strategies proposed by the executive Directors are fully discussed and critically examined prior to adoption. They also scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

All Directors appointed by the Board must retire and seek election at the first Annual General Meeting following their appointment. One third of the other Directors are then required to retire and submit themselves for re-election each year so that all Directors are required to retire and submit themselves for re-election at least once in every three years. W M Teasdale, D M Forbes and M Sherwin are to retire and submit themselves for re-election by rotation at the 2010 Annual General Meeting.

Board of Directors (continued)

The Board is satisfied that plans are in place for orderly succession for appointments to the Board and senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

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

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

The Audit Committee

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

Following the appointment of a Head of Internal Audit in February 2010, the Committee will review the work of the new Internal Audit function and ensure that it contributes an effective and independent control to ensure compliance with the Group's policies and controls.

Remuneration Committee

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

The Remuneration Committee considers that inclusion of fluctuating emoluments, which include performance bonuses, is an important element of the Company's employment of executive Directors and senior managers. In recognition of the large proportion of remuneration attributable to performance bonuses, the pensionable salaries for executive Directors and senior managers is fixed at 110% of basic salary. The Combined Code 2008 recommends that, in general, bonuses should not be pensionable. However, the bonus element is regarded by the Committee as an important motivational and retention feature of emoluments.

Nominations Committee

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

Pension Trustees

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

Relations with Shareholders

The Company encourages two way communications with both institutional and private investors and responds quickly to all queries received orally or in writing. Institutional shareholders are regularly invited to visit the operations and a number have taken up this opportunity. The executive Directors attended meetings with institutional shareholders and analysts during the year at the time of the publication of the Group’s interim results and subsequently following the issuance of the Preliminary Announcement.

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

Internal Controls

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

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

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

- Board of Directors

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

- Mission Statement and Values

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

Internal Controls (continued)

- Audit Committee

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

- Risk Champions

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

- Chief Executive’s Committee

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

- Policies and Procedures

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

- Financial Reporting

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

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

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

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

Going concern

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

Corporate Governance Report (continued)

Going concern (continued)

The projections assume that new car sales will decline in 2010 following the end of the Government's scrappage programme; the service and parts business will be more resilient to the downturn; UK interest rates will rise post general election; manufacturer partners will remain in production and supply on normal terms of trade, and there will be no further significant downturn in the global economic environment.

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

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

Independence of the Independent Auditors

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

- Statutory audit services

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

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

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

- Other non-audit services

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

By order of the Board

Karen Anderson
Company Secretary
12 May 2010

Remuneration Report

The Board presents the Remuneration Report for the year ended 28 February 2010.

Remuneration Committee

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

General Remuneration Policy

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

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

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

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

a) Basic Salary

The basic salaries in place from 1 March 2009 to 28 February 2010 for the two executive Directors were £150,000 for the Chief Executive R T Forrester and £100,000 for Finance Director K Anderson. When assessing basic salaries for 2009/10, the Remuneration Committee have fully considered the comparative information available, the levels of pay elsewhere in the Group and the responsibilities of the Company's executive Directors, having regard to their respective roles. The basic salary of R T Forrester will remain unchanged for 2010/11 and the basic salary of Michael Sherwin will be £125,000.

b) Performance Related Bonus

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

Remuneration Report (continued)

General Remuneration Policy (continued)

b) Performance Related Bonus (continued)

R T Forrester and K Anderson are eligible for performance bonuses which reward achievement of financial performance measured by objectives set by the Remuneration Committee. The maximum amount of performance bonus that could have been earned for the year to 28 February 2010 was 83% of basic salary for R T Forrester and 75% of basic salary for K Anderson.

The Remuneration Committee considered carefully the basis for bonus payments to the Chief Executive and Finance Director for the 2009/10 year. The changes in market conditions necessitated a review of budgets during the course of the year and the committee took the view that the financial performance should be assessed at the end of the year and any bonus determined at that time. Accordingly, in December, it was confirmed that the bonus level for R T Forrester should be 122% of basic salary and for K Anderson 110% of basic salary. In arriving at this conclusion the committee took into account the Company's financial performance in its own right and also compared with other companies in the sector.

For the 2010/11 financial year, the maximum amount of performance bonus that can be earned is 150% of basic salary for R T Forrester and 125% of basic salary for M Sherwin. Targets for the purpose of bonus payments are based on consensus profit forecasts by leading analysts at the commencement of the financial year adjusted for the impact of acquisitions and disposals. The profit forecast (profit before taxation) as at 1 March 2010 was £6.5m. As set out in the Chairman's Report, the Group performed ahead of the Board's expectations in March 2010.

c) Share Option Schemes

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

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

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

Service Contracts

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

a) Notice Periods

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

b) Termination Payments

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

Remuneration Report (continued)

Service Contracts (continued)

c) Mitigation Policy

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

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

Details of the Directors' service contracts are as follows:

Name	Date of Contract	Term	Notice Period
P R Williams	26 February 2007	Up to 9 years from 26 March 2007	Renewed on re-election every 3 years
R T Forrester	6 November 2006	Rolling	Rolling
M Sherwin	25 February 2010	Rolling	Rolling
W M Teasdale	6 November 2006	Up to 9 years from 6 November 2006	Renewed on re-election every 3 years
D M Forbes	11 August 2009	Up to 9 years from 11 August 2009	Renewed on re-election every 3 years

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

Pensions

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

Policy on Performance Criteria

The performance conditions attaching to any share options issued to executive Directors, senior management or colleagues of the Company are considered and set by the Remuneration Committee. The following share incentive schemes are operated by the Company:

(a) Share Incentive Plan ("SIP")

The SIP was introduced in the financial year in accordance with appropriate legislation and it requires colleagues to invest in partnership shares out of gross salary. A participant may withdraw from the SIP at any time but if he does so before the partnership shares have been held in trust for five years (except in certain specified circumstances such as redundancy or disability) he will incur an income tax liability. The Company currently do not supplement or match the partnership shares acquired by colleagues.

(b) Enterprise Management Incentives ("EMI") Approved and Unapproved Share Option Scheme

The Scheme provides for the issue of executive share options to senior management and executive Directors at the discretion of and with performance criteria set by the Remuneration Committee.

Options granted prior to 28 March 2007

Options granted may only be exercised if the market value of a share in Vertu Motors plc, measured on the third anniversary of the date of grant, has increased by more than 50% from the market value at the date of grant. If the market value of a share has increased by between 50% and 100% then the percentage increase will represent the proportion of total options granted which are exercisable. Subsequent to 28 February 2010, all of these options have lapsed.

Remuneration Report (continued)

Policy on Performance Criteria (continued)

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

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

(d) Parallel Options

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

Remuneration

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

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

The remuneration of the Directors who served during the period from 1 March 2008 to 28 February 2009 is as follows:

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	100	-	10	50*	160
K Anderson	86	-	17	-	103
P R Williams	-	70	-	-	70
W M Teasdale	-	35	-	-	35
	186	**105**	**27**	**50**	**368**

*Included within the remuneration tables above are performance bonuses of £293,000 (2009: £50,000), paid into trusts (the beneficiaries of which are key management) rather than to the employees themselves. Nevertheless, these sums still constitute short-term employee benefits and are therefore included as remuneration.

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

Remuneration Report (continued)

Directors' Pension Entitlements

The Company has paid £25,000 (2009: £17,000) in contributions to the defined contribution Bristol Street Pension Scheme during this financial year in respect of R T Forrester and £16,000 (2009: £17,000) in respect of K Anderson.

Directors' Share Incentives

None of the Directors who held office at 28 February 2010 held options over the shares of the Company.

Approval by Shareholders

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

By order of the Board

W M Teasdale
Chairman of the Remuneration Committee
12 May 2010

Independent Auditors' Report to the members of Vertu Motors plc

We have audited the Group financial statements of Vertu Motors plc for the year ended 28 February 2010, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion, the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 28 February 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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; or
- we have not received all the information and explanations we require for our audit.

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

Other matter

We have reported separately on the parent Company financial statements of Vertu Motors plc for the year ended 28 February 2010. The opinion in that report is unqualified.

Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
12 May 2010

Consolidated Income Statement

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)	-
	6	**(93,894)**	**(83,617)**
Operating profit before amortisation, share based payments charge (credit) 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	8	(1,404)	(3,441)
Operating profit		**5,820**	**2,110**
Finance income	11	1,736	1,788
Finance costs	11	(2,432)	(3,830)
Exceptional recycling of cash flow hedge reserve	8	(498)	-
Profit before tax, amortisation, share based payments charge (credit) and total exceptional charges		6,856	3,471
Amortisation of intangible assets		(209)	(183)
Share based payments (charge) credit		(119)	221
Total exceptional charges	8	(1,902)	(3,441)
Profit before tax		**4,626**	**68**
Taxation	12	(844)	789
Profit for the year attributable to equity holders		**3,782**	**857**
Basic earnings per share (p)	13	**2.23**	**0.83**
Diluted earnings per share (p)	13	**2.23**	**0.83**

Consolidated Statement of Comprehensive Income

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	30	-	(981)
Deferred tax relating to cash flow hedges	30	-	275
Recycling of cash flow hedge reserve to the income statement	30	498	-
Deferred tax on recycling of cash flow hedge reserve	30	(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

As at 28 February 2010

	Note	2010 £'000	2009 £'000
Non-current assets			
Goodwill	14	20,110	18,612
Other intangible assets	15	963	1,043
Retirement benefit asset	28	-	130
Property, plant and equipment	17	67,029	49,813
		88,102	**69,598**
Current assets			
Inventories	19	166,309	155,698
Property assets held for sale	20	4,900	10,250
Trade and other receivables	21	22,078	19,791
Cash and cash equivalents	22	34,347	12,907
Total current assets		**227,634**	**198,646**
Total assets		**315,736**	**268,244**
Current liabilities			
Trade and other payables	23	(201,899)	(185,056)
Current tax liabilities		(3,804)	(2,370)
Deferred consideration	16	(664)	-
Borrowings	24	(168)	(2,000)
Total current liabilities		**(206,535)**	**(189,426)**
Non-current liabilities			
Borrowings	24	(10,655)	(14,336)
Derivative financial instruments	25	(1,434)	(1,434)
Deferred income tax liabilities	26	(3,541)	(4,416)
Retirement benefit liability	28	(495)	-
Provisions for other liabilities and charges	27	(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	29	19,756	9,198
Share premium	29	60,506	40,991
Other reserve	29	8,328	7,969
Hedging reserve	30	(672)	(1,032)
Retained earnings		2,604	73
Shareholders' equity		**90,522**	**57,199**

These financial statements have been approved for issue by the Board of Directors on 12 May 2010:

Robert Forrester
Chief Executive

Michael Sherwin
Finance Director

Consolidated Cash Flow Statement

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	15	209	183
Depreciation of property, plant and equipment	17	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	16	(12,023)	-
Acquisition of freehold land and buildings		(5,950)	-
Purchases of intangible fixed assets	15	(129)	(156)
Purchases of property, plant and equipment	17	(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	31	(6,677)	(10,119)
Net cash inflow (outflow) from financing activities		**23,270**	**(10,119)**
Net increase in cash and cash equivalents	**31**	**21,440**	**3,448**
Cash and cash equivalents at beginning of year		12,907	9,459
Cash and cash equivalents at end of year	**22**	**34,347**	**12,907**

Consolidated Statement of Changes in Equity

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 to the Consolidated Financial Statements (continued)

1. Accounting Policies

Basis of Preparation

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

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

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

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.

Interpretations effective in the year ended 28 February 2010

- IFRS 7 – Financial instruments: disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. These disclosures are reflected in the consolidated financial statements, including their impact on the comparatives.
- IAS 1 (revised) – presentation of the financial statements – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a Statement of Comprehensive Income. As a result, the Group presents in the Consolidated Statement of Changes in Equity all owner changes in equity. Comparative information has been represented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- IFRS 2 (amendment) – Share based payments – effective 1 January 2009. This standard amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to the grant date. All cancellations, whether by the entity or other parties, should receive the same accounting treatment. The Group and Company have adopted this amendment and it does not have a material impact on the Group's or Company's financial statements.
- IAS 23 (revised) – Borrowing costs. In respect of borrowing costs relating to qualifying assets for which the commencement of capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Group previously recognised all borrowing costs as an expense immediately. The change in accounting policy has had no material impact on earnings per share.

1. Accounting Policies (continued)

Standards and interpretations not yet effective

The following IFRS and IFRIC interpretations have been issued but have not been early adopted by the Group:

- IFRIC 17 – Distributions of non-cash assets to owners (accounting periods on or after 1 July 2009). This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group will apply IFRIC 17 from 1 March 2010. It is not expected to have a material impact on the Group's financial statements.
- IAS 27 (revised) – Consolidated and separate financial statements (accounting periods beginning on or after 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and a gain or loss is recognised in profit and loss. The Group will apply IAS 27 from 1 March 2010. It is not expected to have a material impact on the Group's financial statements.
- IFRS 3 (revised) – Business combinations (accounting periods beginning on or after 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 March 2010. The Directors are currently assessing the impact of this revision.
- IAS 38 (amendment) – Intangible assets. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted, namely, 1 March 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment is not expected to have a material impact on the Group's financial statements.
- IFRS 5 (amendment) – Non-current assets held for sale and discontinued operations. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Group will apply IFRS 5 (amendment) from 1 March 2010. It is not expected to have a material impact on the Group's financial statements.

1. Accounting Policies (continued)

Standards and interpretations not yet effective (continued)

- IAS 1 (amendment) – Presentation of financial statements. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classed as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply IAS 1 (amendment) from 1 March 2010. It is not expected to have a material impact on the Group's financial statements.
- IFRS 2 (amendments) – Group cash-settled share-based payment transaction (accounting periods on or after 1 January 2010). In addition to incorporating IFRIC 8, "Scope of IFRS 2' and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of new group arrangements that were not covered by that interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

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.

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.

1. Accounting Policies (continued)

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 four to five 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 amortised over their expected useful lives of twenty years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. Land is not depreciated. Depreciation is provided at rates calculated to write off the cost of property, plant and equipment less their estimated residual values, on a straight-line basis over their estimated useful lives at the following rates:

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

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

Inventories

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

Trade receivables

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

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

1. Accounting Policies (continued)

Property assets held for sale

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

Trade payables

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

Provisions

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

Impairment of financial assets

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

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

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where fair value cannot be determined then the recoverable amount will be determined by reference to value in use. Value in use is determined for an individual asset, unless the asset does not generate cash flows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

Impairment losses of continuing operations are recognised in the income statement in that expense category consistent with the function of the impaired asset.

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

1. Accounting Policies (continued)

Taxation

Current tax

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

Deferred tax

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

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

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

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

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

d. in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, 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 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.

Pension costs

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

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

1. Accounting Policies (continued)

Pension costs (continued)

A defined benefit scheme is a pension scheme that is not a defined contribution scheme. Typically defined benefit schemes define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The assets of the defined benefit scheme are held separately from the assets of the Group. The asset or liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

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

Differences between the actual and expected return on assets, changes in the retirement benefit obligation due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full for the year in which they arise.

Share based payments

The Group allows employees to acquire shares of the Company through share option schemes. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The Group operates a number of equity-settled, share-based compensation plans. The total amount to be expensed over the vesting year is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

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

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.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Exceptional costs

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

Leases

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

Share capital

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

Derivative financial instruments

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

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in note 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 expense.

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

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

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity 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. As at the date of this report, the Group has in place an interest rate collar which covers £10m of borrowings.

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.

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

At 28 February 2010, if interest rates on borrowings denominated in UK pounds had been 0.5% higher with all variables held constant, post tax profit for the year would have been £34,000 higher (2009: £70,000 lower) mainly as a result of a higher interest expense on floating rate borrowings. Post tax movement in equity would be £284,000 higher (2009: £137,000 higher) as a result of movements in cash flow hedges.

At 28 February 2010, if interest rates on borrowings denominated in UK pounds had been 1.0% higher with all variables held constant, post tax profit for the year would have been £122,000 higher (2009: £134,000 lower) mainly as a result of a higher interest expense on floating rate borrowings. Post tax movement in equity would be £492,000 higher (2009: £248,000 higher) as a result of movements in cash flow hedges.

2. Financial risk management (continued)

Credit Risk

Credit risk is managed on a Group basis. 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	168	10,655	10,823
Derivative financial instruments	-	1,434	1,434
Trade and other payables	201,899	-	201,899
At 28 February 2010	**202,067**	**12,089**	**214,156**

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	2,000	14,230	16,230
Derivative financial instruments	-	1,434	1,434
Trade and other payables	185,056	-	185,056
At 28 February 2009	**187,056**	**15,664**	**202,720**

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.

3. Capital risk management (continued)

The gearing ratios at 28 February 2010 and 28 February 2009 were as follows:

	2010 £'000	2009 £'000
Total borrowings (note 24)	10,823	16,336
Less: cash and cash equivalents (note 22)	(34,347)	(12,907)
Net (cash) debt	**(23,524)**	**3,429**
Shareholders' equity	**90,522**	**57,199**
Gearing ratio	**N/A**	**6.0%**

Fair value estimation

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

4. Critical accounting estimates and judgements

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

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above and in note 14. 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

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. The obligations under this defined benefit scheme is recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of the assumptions used in the year ended 28 February 2010 are provided in note 28.

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

	2010 Revenue £’m	2010 Revenue %	2010 Gross Margin %	2009 Revenue £’m	2009 Revenue %	2009 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

6. Operating expenses

	2010 £’000	2009 £’000
Wages and salaries excluding share based payments costs (note 9)	54,199	47,316
Depreciation on property, plant and equipment (note 17)	2,945	2,344
Loss on disposal of property, plant and equipment	12	14
Operating lease rentals – property	3,993	4,064
Operating lease rentals – plant and equipment	192	228
Operating lease rentals – vehicles	1,417	472
Auditors’ remuneration (note 7)	209	178
Other expenses	30,927	29,001
	93,894	**83,617**

7. Auditors' remuneration

	2010 £'000	2009 £'000
Fees payable to the Group's auditor for the audit of the parent Company and consolidated financial statements	150	128
Fees payable to the Group's auditor and its associates for other services:		
- audit of Group's subsidiaries	30	30
- other services pursuant to legislation	29	20
	209	**178**

8. 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.

9. Employee benefit expense

	2010 £'000	2009 £'000
Wages and salaries	49,403	43,154
Social security costs	4,063	3,549
Pension costs – defined contribution plans	733	613
	54,199	**47,316**
Share based payments costs (credit) (note 29)	119	(221)
	54,318	**47,095**

9. Employee benefit expense (continued)

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

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

The remuneration of the Directors who served during the period from 1 March 2008 to 28 February 2009 is as follows:

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	100	-	10	50*	160
K Anderson	86	-	17	-	103
P R Williams	-	70	-	-	70
W M Teasdale	-	35	-	-	35
	186	**105**	**27**	**50**	**368**

*Included within the remuneration tables above are performance bonuses of £293,000 (2009: £50,000), paid into trusts (the beneficiaries of which are key management) rather than to the employees themselves. Nevertheless, these sums still constitute short-term employee benefits and are therefore included as remuneration.

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

The Company has paid £25,000 (2009: £17,000) in contributions to the defined contribution Bristol Street Pension Scheme during this financial year in respect of R T Forrester and £16,000 (2009: £17,000) in respect of K Anderson.

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

10. Average number of people employed (including Directors)

	Number 2010	Number 2009
Sales and distribution	798	764
Service, parts and accident repair centres	943	909
Administration	496	483
	2,237	**2,156**

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

	Number 2010	Number 2009
Sales and distribution	843	755
Service, parts and accident repair centres	974	911
Administration	535	456
	2,352	**2,122**

Notes to the Consolidated Financial Statements (continued)

11. Finance income and 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 (note 28)	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 (note 28)	(1,365)	(1,567)
Other finance costs	(13)	(13)
Finance costs	**(2,432)**	**(3,830)**

12. Taxation

	2010 £'000	2009 £'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 (note 26)		
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 £'000	2009 £'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)**

13. 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 £'000	2009 £'000
Profit attributable to equity shareholders	3,782	857
Amortisation of intangible assets	209	183
Share based payments charge (credit)	119	(221)
Exceptional charges	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**

14. Goodwill

	2010 £'000	2009 £'000
Cost and net book value		
At beginning of year	18,612	18,612
Additions	1,498	-
At end of year	**20,110**	**18,612**

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

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

In the year ended 28 February 2010, the acquired goodwill was tested for impairment, with no goodwill impairment charge deemed necessary.

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

A summary of the goodwill purchased is presented below:

	2010 £'000	2009 £'000
Bristol Street Group Limited	13,860	13,860
Blake Holdings Limited	1,366	1,366
Grantham Motor Company Limited	3,209	3,209
Typocar Limited	52	-
Boydslaw 103 Limited	1,446	-
Other trade and asset acquisitions	177	177
	20,110	**18,612**

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

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

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

An annual growth rate of 0% is assumed and a risk adjusted pre-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 10% (2009: 10%) is applied. If an annual growth rate of -5% was to be assumed and a WACC of 15% applied, no impairment arises.

Notes to the Consolidated Financial Statements (continued)

15. Other intangible assets

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

2009	Software costs £'000	Customer relationships £'000	Total £'000
Cost			
At 1 March 2008	544	534	1,078
Additions	156	-	156
Transfers from property, plant and equipment	121	-	121
At 28 February 2009	**821**	**534**	**1,355**
Accumulated amortisation			
At 1 March 2008	92	24	116
Charge for the year	156	27	183
Transfers from property, plant and equipment	13	-	13
At 28 February 2009	**261**	**51**	**312**
Net book value at 28 February 2009	**560**	**483**	**1,043**
Net book value at 29 February 2008	**452**	**510**	**962**

16. Business combinations

a) Trade and assets of certain dealerships acquired from the receivers of Brooklyn Motors plc

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 £7,216,000.

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

	Carrying Value £'000	Fair Value £'000
Property, plant and equipment	7,147	7,147
Inventories	879	879
Trade and other payables	(810)	(810)
Net assets acquired	**7,216**	**7,216**
Goodwill		-
Consideration – satisfied by cash		**7,216**

16. Business combinations (continued)

b) Trade and assets of Lichfield Vauxhall acquired from Steve Thompson Cars Limited

On 2 November 2009, the Group acquired the trade and assets of Lichfield Vauxhall from Steve Thompson Cars Limited, for total cash consideration of £2,827,000.

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

	Carrying Value £'000	Fair Value £'000
Property, plant and equipment	1,823	1,823
Inventories	962	962
Trade and other receivables	42	42
Net assets acquired	**2,827**	**2,827**
Goodwill		-
Consideration – satisfied by cash		**2,827**

c) Acquisition of Typocar Limited

On 7 December 2009, the Group acquired 100% of the share capital of Typocar Limited, a motor retailer operating in the UK.

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

	Carrying Value £'000	Fair Value £'000
Property, plant and equipment	889	889
Inventories	454	454
Trade and other receivables	166	166
Cash and cash equivalents	(221)	(221)
Trade and other payables	(393)	(393)
Net assets acquired	**895**	**895**
Goodwill		52
Consideration – satisfied by cash		**947**

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

If the acquisition of Typocar Limited had occurred on 1 March 2009, Group revenues for the year would have been £6,181,000 higher and Group profit attributable to equity holders would have been £23,000 higher.

d) Acquisition of Boydslaw 103 Limited

On 29 January 2010, the Group acquired 100% of the share capital of Boydslaw 103 Limited, a motor retail Group operating in the UK.

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

	Carrying Value £'000	Fair Value £'000
Goodwill	(130)	-
Property, plant and equipment	2,324	2,090
Inventories	6,526	6,526
Trade and other receivables	627	627
Cash and cash equivalents	926	926
Trade and other payables	(7,795)	(7,795)
Borrowings	(1,089)	(1,089)
Net assets acquired	**1,389**	**1,285**
Goodwill		1,446
Consideration		**2,731**

16. Business combinations (continued)

d) Acquisition of Boydslaw 103 Limited (continued)

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

The total consideration of £2,731,000 consisted of cash of £1,582,000, equity of £485,000 and a maximum deferred equity consideration of £664,000. The deferred consideration is in the form of equity shares, yet to be issued, at a price of 38.6p per share.

As set out in note 34, this acquisition was a related party transaction.

If the acquisition of Boydslaw 103 Limited had occurred on 1 March 2009, Group revenues for the year would have been £32,099,000 higher and Group profit attributable to equity holders would have been £579,000 higher.

e) Other acquisitions – trade and assets

On 1 March 2009, the Group purchased assets at fair value totalling £73,000 in order to start up a Bristol Street Motor Nation dealership in Darlington.

On 27 July 2009, the Group acquired the trade and assets of Ilford Vauxhall and Chevrolet from Crown Motors (Dagenham) Limited, for total cash consideration of £83,000. The fair value of the net assets acquired was also £83,000 and therefore no goodwill arose on acquisition.

Summary of acquisitions' cash consideration

	Cash Consideration £'000	Cash Acquired £'000	Total £'000
Former Brooklyn Motors plc businesses	7,216	-	7,216
Former Steve Thompson Cars business	2,827	-	2,827
Typocar Limited	947	221	1,168
Boydslaw 103 Limited	1,582	(926)	656
Former Crown Motors business	83	-	83
Darlington Motor Nation	73	-	73
Cash consideration	**12,728**	**(705)**	**12,023**

17. Property, plant and equipment

2010	Freehold and Long leasehold land and buildings* £'000	Short Leasehold land and buildings* £'000	Vehicles and Machinery £'000	Furniture, fittings and equipment £'000	Total £'000
Cost					
At 1 March 2009	44,407	2,062	3,346	2,295	52,110
Acquisitions**	17,528	-	218	253	17,999
Additions	2,307	40	306	707	3,360
Disposals	(1,030)	-	(856)	(638)	(2,524)
Reclassifications	636	(201)	(431)	(4)	-
At 28 February 2010	**63,848**	**1,901**	**2,583**	**2,613**	**70,945**
Accumulated depreciation					
At 1 March 2009	1,402	14	471	410	2,297
Depreciation charge	1,127	79	945	794	2,945
Disposals	(8)	-	(684)	(634)	(1,326)
Reclassifications	(10)	208	(193)	(5)	-
At 28 February 2010	**2,511**	**301**	**539**	**565**	**3,916**
Net Book Value					
At 28 February 2010	**61,337**	**1,600**	**2,044**	**2,048**	**67,029**
At 28 February 2009	**43,005**	**2,048**	**2,875**	**1,885**	**49,813**

* Includes leasehold improvements

** Acquisitions include those business combinations included in note 16 together with the purchase of freehold dealerships to expand the capacity of the Group.

Disposals of £159,000 cost (with related accumulated depreciation of £86,000) relate to demonstrator vehicles that have been reclassified to inventories during the year.

During the year, £435,000 (with accumulated depreciation of £198,000) of franchise standards improvements were reclassified from other categories to freehold and long leasehold land and buildings, following a review of asset classification and useful lives. As a consequence of this review, an additional £398,000 of depreciation was charged in the year, in respect of franchise standards improvements.

During the year, the Group established a policy that short leasehold land and buildings are those with a total lease term of under 25 years. As a consequence, £201,000 of cost (with £208,000 of accumulated depreciation) was reclassified into long leasehold land and buildings.

Depreciation expense of £2,945,000 has been charged in operating expenses (note 6).

In addition to the security provided for the Group's borrowings, specific charges over freehold land and buildings amounting to £10,900,000 (2009: £5,040,000) have been granted to manufacturer partners.

17. Property, plant and equipment (continued)

2009	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 2008	40,401	144	5,286	2,828	48,659
Additions	1,778	1,925	964	534	5,201
Disposals	(67)	-	(1,005)	(580)	(1,652)
Reclassifications	2,295	(7)	(1,899)	(366)	23
Transfers to other intangible assets	-	-	-	(121)	(121)
At 28 February 2009	**44,407**	**2,062**	**3,346**	**2,295**	**52,110**
Accumulated depreciation					
At 1 March 2008	331	-	450	432	1,213
Depreciation charge	529	17	1,097	701	2,344
Disposals	(56)	-	(669)	(545)	(1,270)
Reclassifications	598	(3)	(407)	(165)	23
Transfers to other intangible assets	-	-	-	(13)	(13)
At 28 February 2009	**1,402**	**14**	**471**	**410**	**2,297**
Net Book Value					
At 28 February 2009	**43,005**	**2,048**	**2,875**	**1,885**	**49,813**
At 29 February 2008	**40,070**	**144**	**4,836**	**2,396**	**47,446**

*Includes leasehold improvements

Disposals of £312,000 cost (with related accumulated depreciation of £135,000) relate to demonstrator vehicles that have been reclassified to inventories during the year.

Reclassifications relate to movements between fixed asset categories. Depreciation expense of £2,344,000 has been charged in operating expenses (note 6).

18. Subsidiary undertakings

Significant subsidiary undertakings (ordinary shares 100% owned and incorporated within the United Kingdom), as at 28 February 2010 and 28 February 2009 were:

Company	Principal activity
Vertu Fleet Limited	Dormant company
Vertu Motors (Third) Limited	Dormant company
Vertu Motors (Property) Limited	Property holding company
Vertu Motors (Retail) Limited	Dormant company
Bristol Street Fleet Services Limited	Dormant company
Bristol Street Commercials (Italia) Limited	Motor Retailer
Vertu Motors (AMC) Limited	Dormant company
Vertu Motors (France) Limited	Dormant company
Bristol Street Group Limited	Motor Retailer
Motor Nation Car Hypermarkets Limited	Motor Retailer
Bristol Street First Investments Limited	Motor Retailer
Bristol Street Fourth Investments Limited	Motor Retailer
Bristol Street Fifth Investments Limited	Holding company (dormant subsidiaries)
Vertu Motors (VMC) Limited	Motor Retailer
Grantham Motor Company Limited	Motor Retailer

Notes to the Consolidated Financial Statements (continued)

18. Subsidiary undertakings (continued)

Company	Principal activity
Blake Holdings Limited	Holding company (dormant subsidiaries)
Bristol Street Limited	Dormant company
Bristol Street (No. 1) Limited	Dormant company
Bristol Street (No. 2) Limited	Dormant company
National Allparts Limited	Dormant company
Tyne Tees Finance Limited	Dormant company
Merifield Properties Limited	Dormant company
Peter Blake Limited	Dormant company
Peter Blake (Chatsworth) Limited	Dormant company
Peter Blake (Clumber) Limited	Dormant company
BSH Pension Trustee Limited	Pension Scheme Trustee
Vertu Motors (Finance) Limited	Finance company

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), acquired in the year ending 28 February 2010 were:

Boydslaw 103 Limited	Holding company
Dunfermline Autocentre Limited	Motor retailer
Typocar Limited	Motor retailer

19. Inventories

	2010 £'000	2009 £'000
Motor vehicles	159,497	149,947
Parts and sundry stocks	6,812	5,751
	166,309	**155,698**

The cost of inventories recognised as expense and included within 'cost of sales' amounted to £736,469,000 (2009: £686,441,000).

Motor vehicles include new vehicles invoiced not yet paid and held by manufacturers to the order of the Group of £123,995,000 (2009: £117,590,000). A corresponding liability is held within trade payables.

20. Property assets held for sale

	2010 £'000	2009 £'000
At beginning of year	10,250	11,390
Disposals	(5,250)	-
Impairment of property assets held for resale	(100)	(1,140)
At end of year	**4,900**	**10,250**

During the year ended 28 February 2010, one of these property assets held for resale was written down to its deemed cost value, resulting in an impairment charge of £100,000 (2009: £1,140,000), disclosed within exceptional costs in note 8.

Notes to the Consolidated Financial Statements (continued)

21. Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	13,677	14,001
Less provision for impairment of trade receivables	(337)	(382)
Trade receivables (net)	**13,340**	**13,619**
Other receivables	6,185	4,022
Prepayments and accrued income	2,553	2,150
	22,078	**19,791**

As at 28 February 2010, trade receivables of £1,063,000 (2009: £1,542,000) were past due but not impaired. The ageing of these receivables are all within 3 months overdue.

As at 28 February 2010, trade receivables of £337,000 (2009: £382,000) were impaired and provided for.

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

	2010 £'000	2009 £'000
At beginning of year	382	127
Provision for receivables impairment	519	694
Receivables written off during the year as uncollectible	(23)	(47)
Unused amounts reversed	(541)	(392)
At end of year	**337**	**382**

The creation and release of provision for impaired receivables have been included in 'other expenses' within 'operating expenses' in the income statement (note 6). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The Group considers there to be no material difference between the fair value of trade and other receivables and their carrying amount in the balance sheet.

The other asset classes within trade and other receivables do not contain impaired assets.

Credit Risk Management

It is the Group's policy to invest cash and assets safely and profitably. To control credit risk, counterparty credit limits are set by reference to published credit ratings and the counterparty's geographical location. 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

	2010 £'000	2009 £'000
Cash in bank and in hand	31,793	11,474
Short term bank deposits	2,554	1,433
	34,347	**12,907**

23. Trade and other payables

	2010 £'000	2009 £'000
Current		
Trade payables	178,663	163,098
Social security and other taxes	1,900	1,684
Accruals and deferred income	10,336	9,274
Other payables	11,000	11,000
	201,899	**185,056**

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

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

24. Borrowings

	2010 £'000	2009 £'000
Current		
Bank borrowings	168	2,000
Non-current		
Bank borrowings	10,655	14,336
	10,823	**16,336**

Borrowings are repayable as follows:

	2010 £'000	2009 £'000
6 months or less	84	1,000
6-12 months	84	1,000
1-5 years	10,655	14,336
	10,823	**16,336**

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 2010, loans were subject to an interest rate of 1% above LIBOR. A rate of 2.25% above base rate has been applied in relation to overdrafts and a rate of 2% above LIBOR has been applied on the Group's Committed Money Market Loan ("CMML") facility. The bank borrowings are secured on the assets of the Company and the Group.

In the year, with the acquisition of Boydslaw 103 Limited, the Group entered into a mortgage arrangement with its existing bankers in relation to the property at Dunfermline Autocentre. This mortgage arrangement of £1,089,000 is being repaid in line with the existing repayment terms under the previous owners of the site. However, the final amount of this mortgage is repayable in line with the Group's current borrowings, in March 2012. The interest rate payable is 1.9% above base rate.

The Group has the following undrawn borrowing and overdraft facilities:

	2010 £'000	2009 £'000
Floating rate		
- Working Capital facility expiring in greater than one year	20,000	20,000
- Loan expiring within one year	-	12,540
	20,000	**32,540**

24. Borrowings (continued)

b) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £34,347,000 (2009: £12,907,000). 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:

	2010 Non-current Liabilities £'000	2009 Non-current Liabilities £'000
Interest rate swaps – cash flow hedges	1,434	1,434

The notional principle amounts of the outstanding interest rate swap contracts at 28 February 2010 were £15,000,000 (2009: £7,500,000). Since the year end, the £5,000,000 notional value contract has been cancelled, leaving one contract of £10,000,000 left to mature on 5 April 2012.

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

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

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

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

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:

	2010 £'000	2009 £'000
Deferred tax asset to be recovered after more than 12 months	(1,014)	(868)
Deferred tax liabilities to be recovered after more than 12 months	4,555	5,284
Deferred tax liabilities (net)	**3,541**	**4,416**

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

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

26. Deferred income tax liabilities (continued)

2009	Deferred tax Liabilities £'000	Deferred tax assets £'000	Net £'000
At 1 March 2008	7,058	(1,183)	5,875
(Credited) charged to income statement (note 12)	(615)	590	(25)
Credited directly to equity	(1,159)	(275)	(1,434)
At 28 February 2009	**5,284**	**(868)**	**4,416**

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

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

2009	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Tax losses £'000	Total £'000
At 1 March 2008	6,185	(62)	873	(719)	(402)	5,875
(Credited) charged to income statement	(987)	62	323	175	402	(25)
Credited directly to equity	-	-	(1,159)	(275)	-	(1,434)
At 28 February 2009	**5,198**	**-**	**37**	**(819)**	**-**	**4,416**

27. Provisions for other liabilities and charges

	2010 £'000	2009 £'000
At beginning of year	1,433	1,029
Charged to the income statement (additional provisions)	2,037	1,542
Credited to the income statement (unused amounts reversed)	(230)	(436)
Utilised during year	(686)	(702)
At end of year	**2,554**	**1,433**

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

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. 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 2010 are estimated to be £380,000.

The Group has applied IAS 19 (Revised 2004) to this scheme and the following disclosures relate to this standard. The Group recognises any actuarial gains and losses in each year in the Statement of Comprehensive Income.

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

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

	Expected rate of return 28 February 2010 %	Market Value 28 February 2010 £’000	Expected rate of return 28 February 2009 %	Market Value 28 February 2009 £’000
Equities	8.0	12,080	8.0	8,721
Bonds	4.8	14,830	4.9	12,314
Other	1.3	186	2.3	148
	6.2	**27,096**	**6.2**	**21,183**

Vertu Motors plc employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out above. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at 28 February 2010.

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

	2010 £’000	2009 £’000
Fair value of Scheme assets	27,096	21,183
Present value of funded obligations	(27,591)	(21,053)
(Liability) asset on the balance sheet	**(495)**	**130**

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

	2010 £’000	2009 £’000
Opening fair value of Scheme assets	21,183	28,637
Expected return on Scheme assets	1,121	1,577
Actuarial gains (losses)	4,254	(6,426)
Employer contributions	1,521	1,141
Benefits paid	(983)	(3,746)
As at end of year	**27,096**	**21,183**

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:

	2010 £'000	2009 £'000
Opening fair value of Scheme liabilities	21,053	25,520
Interest cost	1,365	1,567
Actuarial losses (gains)	6,156	(2,288)
Benefits paid	(983)	(3,746)
Closing fair value of Scheme liabilities	**27,591**	**21,053**

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

	2010 £'000	2009 £'000
Interest cost (note 11)	1,365	1,567
Expected return on Scheme assets (note 11)	(1,121)	(1,577)
Total, included in finance costs (income)	**244**	**(10)**

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

	2010 £'000	2009 £'000
Expected return on Scheme assets	1,121	1,577
Actuarial gains (losses)	4,254	(6,426)
	5,375	**(4,849)**

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

	2010	2009
Discount rate for scheme liabilities	5.8%	6.6%
Limited Price Indexation ("LPI") pension increases	3.4%	2.8%
Inflation rate	3.6%	2.9%

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:

	2010	2009
Male	23	22
Female	25	24

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

	2010	2009
Male	25	24
Female	26	25

28. Retirement benefit obligations (continued)

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

	2010 £'000	2009 £'000
Actuarial losses	(1,902)	(4,138)
Related deferred tax asset (note 26)	532	1,159
Total, included within retained earnings	**(1,370)**	**(2,979)**
Cumulative actuarial losses	**(3,092)**	**(1,190)**

29. Ordinary shares, share premium and other reserve

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

2009	**Ordinary shares Number of Shares ('000)**	**Ordinary shares £'000**	**Share premium £'000**	**Other reserve £'000**	**Total £'000**
At 1 March 2008	91,944	9,194	40,991	7,950	58,135
Shares issued during the year	38	4	-	19	23
At 28 February 2009	**91,982**	**9,198**	**40,991**	**7,969**	**58,158**

The total authorised number of ordinary shares is 230,000,000 shares with a par value of 10p per share. All issued shares are fully paid-up.

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

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

Share Option Scheme

Under the Group's equity-settled share option scheme, share options are granted to certain executive Directors and to selected employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. Options are conditional on the employee completing three year's service (the vesting period). The options are exercisable starting three years from grant date, subject to the performance criteria set out in the Remuneration Report on pages 29 to 33. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

As disclosed in the Consolidated Income Statement on page 36 a share based payments charge of £119,000 (2009: £221,000 credit) has been recognised during the year, in relation to the schemes as described within the Remuneration Report on pages 29 to 33.

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

Award Date	Granted / Outstanding at 28 February 2010 No of shares	Granted / Outstanding at 28 February 2009 No of shares	Exercise Price p	Date from which exercisable	Expiry Date
2 Mar 2007*	393,333	513,333	75p	2 Mar 2010	2 Mar 2017
27 Mar 2007*	670,570	705,293	93.5p	27 Mar 2010	27 Mar 2017
4 May 2007**	203,704	203,704	81p	4 May 2010	4 May 2017
13 Jun 2007**	270,096	270,096	77.75p	13 Jun 2010	13 Jun 2017
1 Aug 2007**	754,226	971,831	71p	1 Aug 2010	1 Aug 2017
28 Aug 2007**	169,231	169,231	65p	28 Aug 2010	28 Aug 2017
7 Sep 2007**	181,818	181,818	66p	7 Sep 2010	7 Sep 2017
4 Jan 2008**	190,000	190,000	40p	4 Jan 2011	4 Jan 2018
26 Feb 2008**	10,000	10,000	43p	26 Feb 2011	26 Feb 2018
1 Apr 2008	233,000	233,000	40p	1 Apr 2011	1 Apr 2018
21 May 2008	450,000	500,000	44p	21 May 2011	21 May 2018
27 Jun 2008	10,000	20,000	38.3p	27 Jun 2011	27 Jun 2018
20 Aug 2009	6,510,000	-	40p	20 Aug 2012	20 Aug 2019
27 Aug 2009	600,000	-	41p	27 Aug 2012	27 Aug 2019
29 Oct 2009	120,000	-	42p	29 Oct 2012	29 Oct 2019
	10,765,978	**3,968,306**			

* Lapsed subsequent to 28 February 2010

**Vested subsequent to 28 February 2010

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

	2010 No of share options	2009 No of share options
At beginning of year	3,968,306	4,041,423
Granted	7,230,000	753,000
Forfeited	(432,328)	(826,117)
At end of year	**10,765,978**	**3,968,306**

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

All options were granted at nil consideration. The middle market price of the shares as at 28 February 2010 was 38p (2009: 15p) and the range during the financial year was 15.5p to 49p (2009: 10p to 50p).

The weighted average share price during the year was 40p (2009: 66p).

The weighted average fair value of options granted during the year, determined using the Black-Scholes model was 13p (2009: 23p) per option.

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

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

Vesting period	3 years
Expected volatility	30%
Option life	7 years
Expected life	5 years
Annual risk-free interest rate	3%
Dividend yield	0%
Expectations of meeting performance criteria	0%

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

30. Hedging reserve

	2010 £'000	2009 £'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)**

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

	2010 £'000	2009 £'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)**

32. Contingencies

Gains

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.

33. Commitments

a) Capital Commitments

Capital commitments amounting to £430,000 were outstanding as at 28 February 2010 (2009: £Nil).

b) Operating Lease Commitments

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

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

	2010		2009	
	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	4,278	1,293	4,107	932
Later than 1 year and no later than 5 years	16,434	352	15,702	168
Later than 5 years	41,252	-	39,960	-
	61,964	**1,645**	**59,769**	**1,100**

34. 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 2010 is set out in note 9.

Except for transactions with subsidiary undertakings and the Boydslaw 103 Limited acquisition as set out below, there were no other related party transactions during the year ended 28 February 2010. In relation to the Boydslaw 103 Limited acquisition, Robert Forrester, Chief Executive Officer of the Company, was a shareholder in Boydslaw 103 Limited and owned 19.6% of its issued share capital. Therefore, the acquisition represented a related party transaction, and was also a Substantial Transaction, under the AIM Rules. The acquisition required shareholder approval under the substantial property transaction provisions of the Companies Act 2006 (section 190), which was received on 29 January 2010.

Details of principal subsidiary undertakings are given in note 18.

35. 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.

Independent Auditors' Report to the members of Vertu Motors plc

We have audited the parent Company financial statements of Vertu Motors plc for the year ended 28 February 2010 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion

In our opinion, the parent Company financial statements:

- give a true and fair view of the state of the Company's affairs as at 28 February 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

Other matter

We have reported separately on the Group financial statements of Vertu Motors plc for the year ended 28 February 2010. That opinion in that report is unqualified.

Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
12 May 2010

Company Balance Sheet

As at 28 February 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	3	875	811
Investments in subsidiary undertakings	4	21,779	19,294
		22,654	**20,105**
Current assets			
Debtors	5	44,386	42,590
Cash at bank and in hand		48,250	25,942
Total current assets		**92,636**	**68,532**
Creditors: amounts falling due within one year	7	**(19,803)**	**(17,122)**
Net current assets		**72,833**	**51,410**
Total assets less current liabilities		**95,487**	**71,515**
Creditors: amounts falling due after more than one year	8	**(11,062)**	**(15,664)**
Provisions for liabilities	10	**(2,554)**	**(1,433)**
Net assets		**81,871**	**54,418**
Capital and reserves			
Called up share capital	11	19,756	9,198
Share premium account	11	60,506	40,991
Other reserve	11	8,328	7,969
Hedging reserve	12	(672)	(1,032)
Profit and loss account	13	(6,047)	(2,708)
Total shareholders' funds	14	**81,871**	**54,418**

These financial statements have been approved for issue by the Board of Directors on 12 May 2010.

Robert Forrester
Chief Executive

Michael Sherwin
Finance Director

Notes to the Company Financial Statements

For the year ended 28 February 2010

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. Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention 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 is presented by the Company, as permitted under section 408 of the Companies Act 2006. The loss of the Company for the year ended 28 February 2010 was £3,458,000 (2009: £387,000).

There is no requirement for a cash flow statement to be disclosed. The Company is also taking the exemption from complying with FRS 29 “Financial Instruments: Disclosures”.

2. Accounting Policies

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. Assets’ residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. Depreciation is provided at rates calculated to write off the cost of tangible fixed assets less their estimated residual values, on a straight-line basis over their estimated useful lives at the following rates:

Computer equipment	25%
Office equipment	25%
Company vehicles	20%

Investments

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

Deferred Taxation

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

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax 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.

2. Accounting Policies (continued)

Deferred Taxation (continued)

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Provisions

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

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 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.

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

Derivative financial instruments

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

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

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of derivative financial instruments used for hedging purposes are disclosed in note 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 these are included in the consolidated Group financial statements.

Notes to the Company Financial Statements (continued)

2. Accounting Policies (continued)

Derivative financial instruments (continued)

Cash flow hedges

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

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

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

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.

3. Tangible fixed assets

	Computer Equipment £'000	Office Equipment £'000	Company Vehicles £'000	Total £'000
Cost				
At 1 March 2009	1,119	86	75	1,280
Additions	404	22	3	429
Disposals	(2)	-	(43)	(45)
Transfers	-	(3)	-	(3)
At 28 February 2010	**1,521**	**105**	**35**	**1,661**
Accumulated Depreciation				
At 1 March 2009	401	43	25	469
Depreciation charge	298	24	7	329
Disposals	(1)	-	(8)	(9)
Transfers	-	(3)	-	(3)
At 28 February 2010	**698**	**64**	**24**	**786**
Net Book Value				
At 28 February 2010	**823**	**41**	**11**	**875**
At 28 February 2009	**718**	**43**	**50**	**811**

Notes to the Company Financial Statements (continued)

4. Investments in subsidiary undertakings

	2010 £'000	2009 £'000
Cost and net book value		
At beginning of year	19,294	4,838
Additions	2,485	2,500
Transfers from other Group companies	-	11,956
At end of year	**21,779**	**19,294**

The additions in the year relate to a further investment in Bristol Street Commercials (Italia) Limited (£1,500,000) and the purchase of Typocar Limited (£985,000).

Vertu Motors plc, the Company, as at 28 February 2010 and 28 February 2009, invested in 100% of the ordinary share capital of the following significant subsidiary undertakings, incorporated in the United Kingdom:

Company	**Principal activity**
Vertu Fleet Limited	Dormant company
Vertu Motors (Property) Limited	Property holding company
Vertu Motors (Retail) Limited	Dormant company
Vertu Motors (Third) Limited	Dormant company
Vertu Motors (Finance) Limited	Finance company
Vertu Motors (AMC) Limited	Dormant company
Vertu Motors (France) Limited	Dormant company
Vertu Motors (VMC) Limited	Motor Retailer
Bristol Street Commercials (Italia) Limited	Motor Retailer
Motor Nation Car Hypermarkets Limited	Motor Retailer
Grantham Motor Company Limited	Motor Retailer
Bristol Street Fleet Services Limited*	Dormant company
Bristol Street Group Limited*	Motor Retailer
Bristol Street First Investments Limited*	Motor Retailer
Bristol Street Fourth Investments Limited*	Motor Retailer
Bristol Street Fifth Investments Limited*	Holding company (dormant subsidiaries)
Blake Holdings Limited*	Holding company (dormant subsidiaries)
Bristol Street Limited*	Dormant company
Bristol Street (No. 1) Limited*	Dormant company
Bristol Street (No. 2) Limited*	Dormant company
National Allparts Limited*	Dormant company
Tyne Tees Finance Limited*	Dormant company
Merifield Properties Limited*	Dormant company
Peter Blake Limited*	Dormant company
Peter Blake (Chatsworth) Limited*	Dormant company
Peter Blake (Clumber) Limited*	Dormant company
BSH Pension Trustee Limited*	Pension Scheme Trustee

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), were acquired in the year ending 28 February 2010:

Boydslaw 103 Limited*	Holding company
Dunfermline Autocentre Limited*	Motor retailer
Typocar Limited	Motor retailer

*Held indirectly by the Company.

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

5. Debtors

	2010 £'000	2009 £'000
Trade debtors	256	129
Deferred tax asset (note 6)	540	413
Corporation tax	-	288
Amounts owed by Group undertakings	41,414	40,426
Value Added Tax	1,009	456
Prepayments and accrued income	1,167	878
	44,386	**42,590**

6. Deferred tax asset

	2010 £'000	2009 £'000
At beginning of year	413	126
Credited to profit and loss account	265	12
(Charged) credited directly to equity	(138)	275
At end of year	**540**	**413**

The amounts recognised for deferred tax assets, calculated under the liability method at 28%, are set out below:

	2010 £'000	2009 £'000
Accelerated capital allowances	68	11
Other short term timing differences	472	402
Total	**540**	**413**

The Directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in these financial statements.

7. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Bank loans	-	2,000
Trade creditors	1,867	1,121
Other creditors	11,000	11,000
Corporation tax	653	-
Deferred consideration	664	-
Other taxes and social security	1,557	827
Accruals and deferred income	4,062	2,174
	19,803	**17,122**

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

	2010	2009
	£'000	£'000
Bank borrowings	9,628	14,230
Derivative financial instruments (note 9)	1,434	1,434
	11,062	**15,664**

	2010	2009
Borrowings are repayable as follows:	£'000	£'000
Under 1 year	-	2,000
1-2 years	-	-
2-5 years	9,628	14,230
Over 5 years	-	-
	9,628	**16,230**

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. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

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

	Less than one year	Between two and five years	Total
	£'000	£'000	£'000
Bank borrowings	2,000	14,230	16,230
Derivative financial instruments	-	1,434	1,434
Trade and other creditors	15,122	-	15,122
At 28 February 2009	**17,122**	**15,664**	**32,786**

9. Derivative financial instruments

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

	2010 Long term Liabilities £'000	2009 Long term Liabilities £'000
Interest rate swaps – cash flow hedges	1,434	1,434

The notional principle amounts of the outstanding interest rate swap contracts at 28 February 2010 were £15,000,000 (2009: £7,500,000). Since the year end, the £5,000,000 notional value contract has been cancelled, leaving one contract of £10,000,000 left to mature on 5 April 2012.

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

10. Provisions for liabilities

	2010 £'000	2009 £'000
At beginning of year	1,433	1,029
Charged to the profit and loss account (additional provisions)	2,037	1,542
Credited to the profit and loss account (unused amounts)	(230)	(436)
Used during year	(686)	(702)
At end of year	**2,554**	**1,433**

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

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

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

The total authorised number of ordinary shares is 230,000,000 shares with a par value of 10p per share. All issued shares are fully paid-up.

The other reserve is a merger reserve, arising from shares issued for shares, as deferred consideration, to the former shareholders of Bristol Street Group Limited, Blake Holdings Limited and Boydslaw 103 Limited.

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

Notes to the Company Financial Statements (continued)

12. Hedging reserve

	2010 £'000	2009 £'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 profit and loss account	498	-
Deferred tax on recycling of cash flow hedge reserve	(138)	-
At end of year	**(672)**	**(1,032)**

13. Profit and loss account

	2010 £'000	2009 £'000
As at beginning of year	(2,708)	(2,100)
Loss for the year	(3,458)	(387)
Share based payments adjustment	119	(221)
As at end of year	**(6,047)**	**(2,708)**

14. Reconciliation of shareholders' funds

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

15. 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 £119,000 (2009: credit of £221,000).

16. Contingencies

See note 32 to the consolidated financial statements for details of contingent assets as at the balance sheet date.

17. Directors' Remuneration

The remuneration of the Directors who served during the year from 1 March 2009 to 28 February 2010 is set out within note 9 to the consolidated financial statements.

Notes to the Company Financial Statements (continued)

18. Commitments

a) Capital Commitments

The Directors are not aware of any significant capital commitments as at the balance sheet date.

b) Operating Lease Commitments.

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

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

	2010	2009
Commitments under non-cancellable operating leases expiring:	**Vehicles £'000**	**Vehicles £'000**
No later than 1 year	16	88
Later than 1 year and no later than 2 years	164	33
	180	**121**

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 statements are presented with consolidated financial statements of its Group.

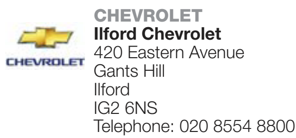
20. Post balance sheet events

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.

Group Directory

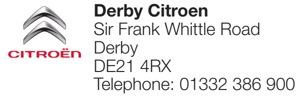
CHEVROLET



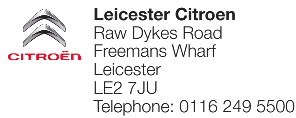
Ilford Chevrolet
420 Eastern Avenue
Gants Hill
Ilford
IG2 6NS
Telephone: 020 8554 8800

CITROËN

Burton Citroen
Nicholson Way
Off Wellington Road
Burton on Trent
DE14 2AW
Telephone: 01283 567 811



Derby Citroen
Sir Frank Whittle Road
Derby
DE21 4RX
Telephone: 01332 386 900



Leicester Citroen
Raw Dykes Road
Freemans Wharf
Leicester
LE2 7JU
Telephone: 0116 249 5500

Nottingham Citroen
Haydn Road
New Basford
Nottingham
NG5 1EA
Telephone: 0115 942 3300

FIAT

Cheltenham Fiat
Tewkesbury Road
Cheltenham
GL51 9DT
Telephone: 01242 52 77 78

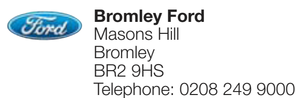
Worcester Fiat
Cosgrove Close
Blackpole
Worcester
WR3 8UA
Telephone: 01905 343 600

FIAT PROFESSIONAL

Swindon Fiat Professional
Marshgate Trading Estate
Stratton Road
Swindon
SN1 2PA
Telephone: 01793 422 366

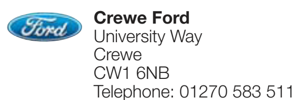
FORD

Birmingham Ford
Bristol Street
Birmingham
B5 7AZ
Telephone: 0121 666 6000



Bromley Ford
Masons Hill
Bromley
BR2 9HS
Telephone: 0208 249 9000

Cheltenham Ford
Hayden Road
off Tewkesbury Road
Cheltenham
GL51 0SJ
Telephone: 01242 229 922



Crewe Ford
University Way
Crewe
CW1 6NB
Telephone: 01270 583 511

Dunfermline Ford
Halbeath Road
Dunfermline
KY12 7RD
Telephone: 01383 721 536

Garretts Green Ford
40 Granby Avenue
Garretts Green
Birmingham
B33 0TJ
Telephone: 0121 789 7000

Gloucester Ford
Bristol Road
Gloucester
GL2 5YB
Telephone: 01452 521 581

Hagley Road Ford
68 Hagley Road
Smethwick
Birmingham
B67 5EZ
Telephone: 0121 429 9797

Kings Norton Ford
Kings Norton Business Park
Pershore Road South
Birmingham
B30 3ES
Telephone: 0121 433 3030

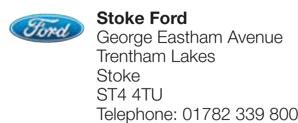
Morpeth Ford
Coopies Lane
Morpeth
NE61 6JN
Telephone: 01670 519 611

Orpington Ford
Green Street Green
Orpington
BR6 7LP
Telephone: 01689 888 188

Redditch Ford
Battens Drive
Redditch
Worcester
B98 0LJ
Telephone: 01527 521212

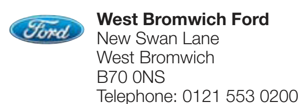
Shirley Ford
361 - 369 Stratford Road
Shirley
Solihull
B90 3BS
Telephone: 0121 733 3333

Stafford Ford
Stone Road
Stafford
ST16 2RA
Telephone: 01785 251 331

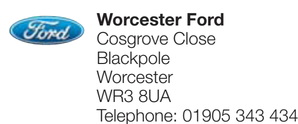


Stoke Ford
George Eastham Avenue
Trentham Lakes
Stoke
ST4 4TU
Telephone: 01782 339 800

Stroud Ford
London Road
Stroud
GL5 2AX
Telephone: 01453 751 341

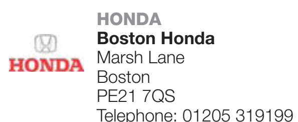


West Bromwich Ford
New Swan Lane
West Bromwich
B70 0NS
Telephone: 0121 553 0200

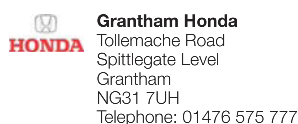


Worcester Ford
Cosgrove Close
Blackpole
Worcester
WR3 8UA
Telephone: 01905 343 434

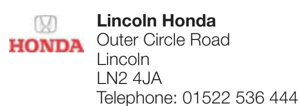
HONDA



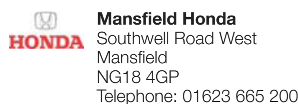
Boston Honda
Marsh Lane
Boston
PE21 7QS
Telephone: 01205 319199



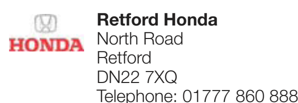
Grantham Honda
Tollemache Road
Spittlegate Level
Grantham
NG31 7UH
Telephone: 01476 575 777



Lincoln Honda
Outer Circle Road
Lincoln
LN2 4JA
Telephone: 01522 536 444

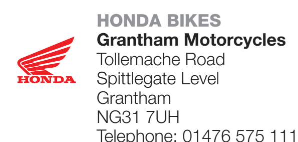


Mansfield Honda
Southwell Road West
Mansfield
NG18 4GP
Telephone: 01623 665 200



Retford Honda
North Road
Retford
DN22 7XQ
Telephone: 01777 860 888

HONDA BIKES



Grantham Motorcycles
Tollemache Road
Spittlegate Level
Grantham
NG31 7UH
Telephone: 01476 575 111

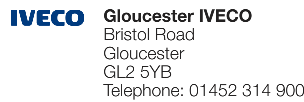
HYUNDAI

Banbury Hyundai
Southam Road
Banbury
OX16 2RS
Telephone: 0844 8759633

Exeter Hyundai
14A Marsh Barton Road
Marsh Barton Trading Est.
Exeter
EX2 8NT
Telephone: 01392 423 300

IVECO

Bristol IVECO
Cabot Park
Poplar Way West
Avonmouth
Bristol
BS11 0YW
Telephone: 01179 162 240



Gloucester IVECO
Bristol Road
Gloucester
GL2 5YB
Telephone: 01452 314 900

Swindon IVECO
Marshgate Trading Estate
Stratton Road
Swindon
SN1 2PA
Telephone: 01793 422 366

MAZDA

Cheltenham Mazda
Tewkesbury Road
Cheltenham
GL51 9DT
Telephone: 01242 221111

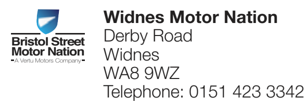
Redditch Mazda
Battens Drive
Redditch
Worcester
B98 0LJ
Telephone: 01527 521212

MOTOR NATION

Birmingham Motor Nation
36 Mackadown Lane
Garretts Green
Birmingham
B33 0JJ
Telephone: 0121 786 1111

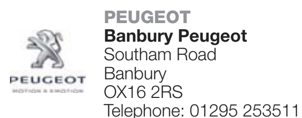
Darlington Motor Nation
McMullen Road
Darlington
DL1 1XP
Telephone: 01325 283200

Doncaster Motor Nation
Thorne Road
Doncaster
DN2 5DX
Telephone: 01302 346 560



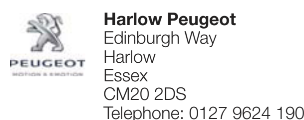
Widnes Motor Nation
Derby Road
Widnes
WA8 9WZ
Telephone: 0151 423 3342

PEUGEOT



Banbury Peugeot
Southam Road
Banbury
OX16 2RS
Telephone: 01295 253511

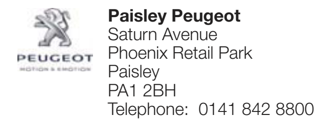
Chesterfield Peugeot
Sheffield Road
Chesterfield
S41 8LF
Telephone: 01246 572 700



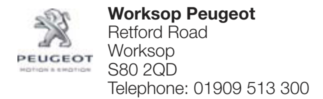
Harlow Peugeot
Edinburgh Way
Harlow
Essex
CM20 2DS
Telephone: 0127 9624 190

Northampton Peugeot
2 Fortune Close
Riverside Park
Northampton
NN3 9HZ
Telephone: 01604 401 141

Oxford Peugeot
370 Iffley Road
Oxford
OX4 4AT
Telephone: 01865 749 000



Paisley Peugeot
Saturn Avenue
Phoenix Retail Park
Paisley
PA1 2BH
Telephone: 0141 842 8800



Worksop Peugeot
Retford Road
Worksop
S80 2QD
Telephone: 01909 513 300

RENAULT

Darlington Renault
Haughton Road
Darlington
DL1 2BP
Telephone: 01325 35 41 45

Exeter Renault
14A Marsh Barton Road
Marsh Barton Trading Est.
Exeter
EX2 8NT
Telephone: 01392 423 300

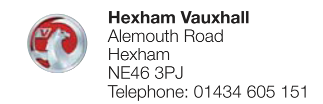
Gloucester Renault
3 Ramsdale Road
Gloucester
GL2 5FE
Telephone: 01452 505295

SEAT

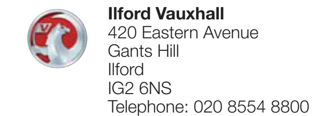
Darlington SEAT
Haughton Road
Darlington
DL1 2BP
Telephone: 01325 35 41 45

VAUXHALL

Chesterfield Vauxhall
464 Chatsworth Road
Chesterfield
S40 3BD
Telephone: 01246 245 200

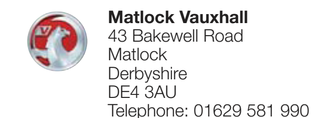


Hexham Vauxhall
Alemouth Road
Hexham
NE46 3PJ
Telephone: 01434 605 151



Ilford Vauxhall
420 Eastern Avenue
Gants Hill
Ilford
IG2 6NS
Telephone: 020 8554 8800

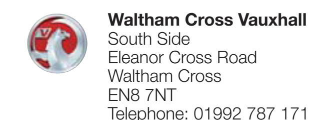
Lichfield Vauxhall
Eastern Avenue
Lichfield
WS13 7SA
Telephone: 01543 414 466



Matlock Vauxhall
43 Bakewell Road
Matlock
Derbyshire
DE4 3AU
Telephone: 01629 581 990

Newcastle Vauxhall
2 City West Business Park
Scotswood Road
Newcastle-Upon-Tyne
NE4 7DF
Telephone: 0191 298 6400

Sunderland Vauxhall
Alexandra Avenue
Hylton Riverside
Sunderland
SR5 2TB
Telephone: 0191 5489090



Waltham Cross Vauxhall
South Side
Eleanor Cross Road
Waltham Cross
EN8 7NT
Telephone: 01992 787 171

Registered Office:
Vertu House, Kingsway North,
Team Valley, Gateshead, NE11 0JH.
Company Number: 05984855
www.vertumotors.com