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BRISTOL STREET FIRST INVESTMENTS LTD

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VERTU Motors plc

ANNUAL REPORT & FINANCIAL STATEMENTS

For the year ended 28 February 2013

...built on trust

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Vertu Motors plc Mission Statement

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

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 now operates 96 sales outlets up from 78 this time last year In this report the Board is reporting strong growth in revenue, adjusted operating profit, operating cashflows and in dividends

The Board has maintained a consistent strategy since flotation to grow a scaled automotive retail group and has so far achieved this through acquiring principally volume franchised dealerships in the UK The highly fragmented nature of the automotive retail sector means that significant growth remains possible through continued strategic acquisitions In addition, the Board has been seeking to broaden the franchises held by the Group into the premium segment and, importantly, several of the premium manufacturers have already confirmed their approval of the Group as a potential franchise partner As an example of this strategic development, the Group's first Volvo operation commenced trading in March 2013 This development will help the creation of a balanced portfolio as the Group seeks to mirror the market share of manufacturers in the UK in the Group's portfolio of franchised dealerships

The Group's strategy is to deliver enhanced business performance from acquired dealerships through the implementation of consistent business processes and systems Dealership management quality is a critical factor in achieving this and the recruitment, development and retention of high performing motor retail professionals is of paramount importance The Group has therefore developed a culture which seeks to attract and retain top performers The success of this strategy is evidenced by the fast pace of growth since the first acquisition in 2007 and the turnaround of acquired dealerships to date in a challenging economic period The acquisitions undertaken in recent periods have still to reach maturity in terms of performance enhancement and this should enable the Group to deliver further organic profit growth over the medium term

Our objective is to deliver an outstanding motoring experience to our customers and, in turn, secure significant gains in vehicle sales and market share in our local territories The increase in each vehicle parc, coupled with high levels of customer retention, is designed to drive higher aftersales activity levels, thereby, allowing the Group to deliver improvements in profitability The UK new car market has seen strong growth over the last 12 months as manufacturers faced with catastrophic declines in market demand in Continental Europe have capitalised on the relatively benign consumer environment in the UK The SMMT forecasts that this growth will continue over the next few years and the Board believes that operational gearing benefits will further accelerate the Group's profitability as new car volumes rise with a knock on effect in aftersales

The monthly cost of motoring for the UK consumer continues to be under pressure with high fuel and insurance costs The Board is pleased to note that the UK Government has not continued the Fuel Duty Escalator which could have had a marked negative impact on the consumer Manufacturers are responding to the challenge of motoring costs by producing increasingly fuel efficient new models and by offering attractive finance deals to help with affordability The Group is also helping consumers to better manage their monthly cost of motoring by offering tailored monthly service plans which fix the cost of the annual service and MOT test This goes hand in hand with strategies to retain more and more customers into the higher margin aftersales operations

The Group has continued to expand through acquisitions with 20 outlets either opened at new locations or acquired during the financial year These outlets generated a further £79 5m of revenue in the year ended 28 February 2013 and contributed an adjusted[1] operating loss of £1 6m This loss reflected both the start-up nature of a number of the operations and historical underperformance in others In addition, the fact that all acquisitions in the year were acquired after the peak trading month of March also contributed to these losses Consequently, the Board expects these dealerships to contribute a significantly improved performance in 2013/14

[1] Adjusted for exceptional charges, amortisation of intangible assets and share based payments charge

Chairman's Report (continued)

The Group continually reviews all operations to ensure they will deliver shareholder value in the medium term During the year the Group closed a used car sales outlet, seven franchised sales outlets and four accident repair centres Subsequent to the year end the Group has exchanged contracts with a third party to dispose of its Iveco heavy commercial vehicles business Completion of this transaction is expected to take place on 31 May 2013 The business to be disposed of comprises three outlets and will see the Group exit from the activity of selling heavy trucks which the Board considers to be non-core The costs of these closures and the asset impairments associated with this disposal have been shown as exceptional costs in these financial statements and the Board is confident that these actions will be earnings enhancing in 2013/14

We have a first rate, scalable and highly motivated operational team and I would like to take this opportunity of thanking every member of the team for their dedication and hard work during the year, helping to create and strengthen the unique culture within the business

Current Trading and Outlook

The Group has traded significantly ahead of the prior year and our budget in March and April reflecting the stronger new car market and increased contribution from recently acquired dealerships

March is the most significant month for the profitability of UK automotive retail as a consequence of the plate change and its impact on new car demand and the seasonality of servicing UK new car registrations to private buyers ("the retail market") in March and April increased by 13 8% showing a continuation of the strong growth seen throughout last year The Group's like-for-like new retail volumes increased by 15 0% and manufacturer targets were achieved at a high level reflecting the strong penetration of the Group's local retail markets Profitability from new retail sales moved forward strongly as a consequence and was also aided by the newly acquired dealerships for which this was their first March within the Group

The Group's like-for-like used retail volumes were flat year-on-year in March and April Margins strengthened and the Group delivered an enhanced profit performance in used cars Dealerships acquired in recent years are again exhibiting improved used car returns as they move towards Group average performance

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

The outlook for the new car market in the UK remains favourable with anticipated growth in the private market The used car market remains stable, and aftersales represents an opportunity for growth as customer service and retention is improved The Board remains confident that the Group is well placed to maximise the opportunity for profitable growth as recent acquisitions are turned around and the core business continues to improve profitability The Board considers there is considerable potential for future acquisition growth and to add new franchises to the Group's portfolio

Dividends

The Board has proposed an increase in the final dividend to 0 45 pence per share Taken together with the interim dividend of 0 25 pence per share, this provides a total dividend for the year of 0 7 pence per share (2012 0 6p), an increase of 16 7%

P R Williams
Non-Executive Chairman

Chief Executive's Review

Portfolio Development

During the year the Group has continued to invest in its rapid growth strategy and has expanded the number of sales outlets from 83 at 29 February 2012 to 96 sales outlets through acquisitions and opening new start-up dealerships The Group now operates its 96 sales outlets from 76 locations including three Iveco outlets which await imminent disposal

The current dealership portfolio is summarised below

Dealership Numbers	**May**	**May**
Car Franchises	**2013**	**2012**
Ford	21	20
Vauxhall	14	11
Peugeot	9	8
Honda	9	5
Nissan	7	4
Hyundai	5	4
Citroen	4	4
Mazda	4	4
SEAT	4	3
Renault / Dacia	4	2
Fiat	3	2
Alfa Romeo	2	1
Chrysler Jeep	1	1
Suzuki	1	-
Volvo	1	-
Mitsubishi (ending May 2013)	1	1
	90	**70**
Commercial Vehicle Franchises		
Iveco (to be exited May 2013)	3	3
Fiat Professional	-	1
	3	**4**
Motorcycle Franchise		
Honda	1	1
Non-Franchised Outlets		
Bristol Street Versa	1	-
Bristol Street Motor Nation	1	3
	2	3
Total Sales Outlets	**96**	**78**

The year saw significant expansion of the Group's Honda operations with the opening of a new outlet in Doncaster and the acquisition of three dealerships in the North East These developments established the Group as the largest partner of Honda in the UK with nine outlets under the Vertu Honda brand

The Group continued to expand its Vauxhall operations and the retail capacity of its dealerships Two dealerships were relocated to larger, newly constructed dealerships in the year with a third relocation planned in July 2013 Three dealerships were acquired in the period, bringing the total number of Vauxhall dealerships operated by the Group to fourteen, compared to three in March 2007

Chief Executive's Review (continued)

Portfolio Development (continued)

The Group entered the Nissan franchise in September 2010 and now has seven outlets, having acquired a further three outlets in the year The Group is currently constructing a new Nissan dealership in Northampton, which will commence operations as a start-up business in July 2013 This will make the Group one of Nissan's largest partners in the UK

A number of changes to franchise partners have been made and further changes are planned In July 2012 the Group acquired its first Suzuki dealership and subsequent to the year end, opened its first Volvo dealership with the opening of Volvo Cars Derby This dealership is a start-up operation in newly refurbished premises

The low cost manufacturer, Dacia, is part of the Renault Group and this sub-franchise has been added to the Group's Renault operations during the year Dacia has already started to add incremental sales volumes and in due course will positively impact aftersales Henceforth, Dacia will be a significant part of the Renault franchise business model

In addition to acquiring new dealerships, the Board also performed a strategic review of its on-going operations to ensure that they fitted with the strategy of developing future scaled relationships with manufacturer partners in profitable and appropriate locations

As a result of this review the Group closed a number of operations during the year A sub-scale Ford dealership in Birmingham and a loss-making used car supermarket in Widnes represented the only closures of full dealership locations In addition, six sales outlets, which were part of larger multi-franchise dealerships, were closed to enable more focus on the core franchise at each location Aftersales operations for the exited franchise were retained at the dealerships In addition, the Group closed four accident repair centres, reflecting the overcapacity in that market and the consequent poor returns obtained from these operations

On 28 February 2013 the Group ceased its sales outlet for Fiat Professional Vans in Swindon and exited the franchise as a result The Group will exit its sole Mitsubishi franchise outlet in Hamilton on 31 May 2013

As a result of the above strategic review, the Group also decided to exit its loss-making Iveco heavy trucks and commercial vehicle business This business, which operates from locations in Bristol, Swindon and Gloucester, has no marketing or management synergies with the Group's expanding motor retail activities Given the history of losses the Board determined that it should be disposed of The Group exchanged contracts for the disposal of this business on 10 May 2013 with completion expected to take place on 31 May 2013 This business will be treated as a discontinued activity in the Group's financial statements for the year ending 28 February 2014 Losses relating to onerous leases and asset impairments have been treated as exceptional costs in these financial statements The total of these exceptional charges in the year ended 28 February 2013 was £0 8m The Iveco operations in the year ended 28 February 2013 had revenues of £18 0m and an operating loss of £0 6m Following completion the transaction is expected to have a positive impact on cashflows of approximately £1 5m in relation to proceeds and working capital realisations

The Board continues to seek to balance those dealerships in freehold and leasehold properties As at 28 February 2013 freehold locations accounted for 47% of total Group locations (2012 48%)

Chief Executive's Review (continued)

Operating Review

Revenue in the year increased by 15 7% (£171 0m) to £1,259 3m (2012 £1,088 3m) This reflected the impact of acquisitions made during the year (£79 5m) and the full year impact of prior year acquisitions (£50 0m) Closed operations resulted in reduced year on year turnover of £19 5m Like-for-like revenues grew by 6 0% (£61 0m) reflecting higher volumes of vehicle sales in all channels The Group delivered close to 95,000 new and used vehicles in the year

Market conditions in new vehicle sales improved throughout the year driven by a benign consumer market in the UK and a consistent flow of both product and attractive consumer finance offers from manufacturers The majority of new vehicles sold in the UK are supplied by the European sales operations of global manufacturers who are also responsible for making sales into Continental Europe These operations have faced significant demand shortfalls due to the economic challenges of the Eurozone The resultant increased manufacturing overcapacity has caused manufacturers to push supply into the UK which has both a well-developed retail distribution network and a more favourable consumer environment than Europe The relative strength of Sterling in much of the reporting period also aided these product flows As a result of these factors the UK private retail market rose 14 6% in the year

Overall gross margin fell slightly to 11 8% (2012 11 9%) due to the growth of vehicle sales relative to aftersales in the period Margins are lower in vehicle sales and consequently there has been an effect of mix on overall margin levels

Adjusted[1] EBITDA increased to £13 5m from £12 3m in the year ended 29 February 2012 The adjusted operating profit from continuing operations grew by 31 0% to 11 0m (2012 £8 4m) due to both like-for-like growth in the core dealerships, and crucially the turnaround in profitability of the dealerships acquired over recent years This improvement demonstrates the effectiveness of the Group's business model in improving the profitability of underperforming businesses This was partly offset by adjusted operating losses of £1 6m (2012 £0 8m) relating to acquisitions made in the current year Adjusted[1] operating profits rose by £1 0m from £8 4m to £9 4m with profit improvements being delivered by both vehicle sales and the aftersales operations

[1] Adjusted for exceptional charges, amortisation of intangible assets and share based payments charge

Vehicle Unit Sales Analysis	2013 Core	2013 Acquired[2]	2013 Total	2012 Total[3]	Like-for-Like % Variance	Total % Variance
New retail cars	19,510	2,094	21,604	18,246	11 0	18 4
Motability cars	6,578	1,191	7,769	7,154	(5 8)	8 6
Fleet and commercial vehicles	18,559	1,885	20,444	17,863	4 0	14 4
Total New vehicles	**44,647**	**5,170**	**49,817**	**43,263**	**5.3**	**15 1**
Used retail vehicles	40,209	4,606	44,815	40,112	4 0	11 7
	84,856	**9,776**	**94,632**	**83,375**	**4.7**	**13.5**

[2] Relates to businesses acquired or developed subsequent to 1 March 2011 with businesses migrating into core once they have been in the Group for over 12 months

[3] 2012 volumes include businesses acquired in the year ended 29 February 2012

Chief Executive's Review (continued)

Revenue and Margins

	Year ended 28 February 2013			Year ended 29 February 2012		
	Revenue £m	**Revenue %**	**Gross Margin %**	**Revenue £m**	**Revenue %**	**Gross Margin %**
New car retail and Motability	384 6	31	7 4	330 9	30	7 4
New fleet and commercial	316 0	25	2 3	270 1	25	2 3
Used cars	431 9	34	11 3	374 8	34	11 1
Aftersales	126 8	10	40 8[4]	112 5	11	41 7[4]
	1,259 3	100	11.8	1,088.3	100	11.9

[4] margin in aftersales expressed on internal and external turnover

New retail car volumes sold (excluding Motability Scheme sales) rose by 11 0% in the year on a like-for-like basis This compared to an increase of 14 6% in UK private new car registrations and 11 2% for those franchises which the Group represents The Group's operations performed well in the period, delivering above national average market penetration of new car sales for our manufacturer partners in the majority of the Group's dealerships Sales on the Motability Scheme fell 5 8% on a like-for-like basis in line with a national fall in applications to the Scheme Gross margin percentages in new retail and Motability car sales remained stable

New car fleet registrations in the UK rose by 1 0% in the year whilst the Group saw like-for-like car fleet volumes rise by 17 0% The Group has significant fleet operations and volumes fluctuate depending upon both the demand from fleet operators but also upon manufacturers' appetite to stimulate demand in this price sensitive sector During the year manufacturers have continued the move away from the low margin daily rental market while seeking to stimulate sales in the higher margin contract hire and corporate markets

The commercial vehicle market, comprising light and heavy vehicles, saw lower activity levels during the year as the post-recession bounce in the replacement cycle of the last two years came to an end UK market registrations fell by 4 1% as a consequence In line with this trend the Group's like-for-like volumes of commercial vehicles which are dominated by van sales fell by 9 9% during the year The Group's margins in the fleet and commercial sector remained static at 2 3% (2012 2 3%)

The Group's used vehicle volumes grew by 11 7% in total and by 4 0% on a like-for-like basis Market growth slowed in the second half of the year as the increasingly competitive new car consumer retail offers combined with relatively high used car values resulted in an element of substitution of used car demand into new car business The Group ratio of used cars sold to new cars sold declined from 2 0 to 1 9 for the core business The Group has maintained strong pricing disciplines resulting in a strengthening of gross margin to 11 3% (2012 11 1%) despite an increase in average selling price in the period as used car prices in the wholesale markets remained high

Recently acquired dealerships have significantly lower used car margins than those achieved in the core business These businesses generated a used car gross margin in the year of 8 3% compared to the core business margin of 12 0% The lower margin in newly acquired businesses reflects both the Group's strategy to drive volumes post-acquisition and the previously underperforming nature of the majority of the Group's acquired businesses As Group management processes, training and systems on used cars are embedded over time in these new businesses, then used car margins are expected to converge on those achieved by the Group as a whole A further industry used car metric is return on investment and the Group outperforms the industry average of 81% (Source ASE) in this area The core dealerships of the

Chief Executive's Review (continued)

Revenue and Margins (continued)

Group averaged 147% (2012 146%) in the year and recently acquired dealerships averaged 85% Again this highlights the future profit opportunity which the recent acquisitions represent for the Group going forward

The Group's aftersales operations comprise servicing, accident repair centres and parts supply The strategy of the Group is to increase customer retention in the higher margin service arena through the consistent execution of a number of core strategies Driving service revenues has a positive benefit in enhancing parts sales through the Group's workshops Core retention strategies include a focus on driving increased vehicle sales to build a local vehicle parc which is then marketed to via a sophisticated customer relationship management process using the Group's dedicated contact centre in Gateshead Further retention is driven through the extensive sale of service plans and delivering an outstanding customer experience, for example, committing to clean every vehicle during every visit to a service department

Linked to customer retention, the Group has an extensive programme to improve customer satisfaction which is reinforced as very much part of Group culture and linked to remuneration structures including those of executive directors The Group's Mission Statement is to deliver an outstanding customer motoring experience through honesty and trust and this is what management and colleagues strive to do Many Group dealerships are in the Top 25% for customer satisfaction in their respective franchises and a significant majority are above national average levels as measured by the Group's manufacturer partners The highlight of the year was Peterlee Hyundai being awarded the top dealer award for customer service in the Hyundai franchise in the UK for 2012

The Group saw like-for-like revenues in aftersales increase by 2 1% and like-for-like gross profits grow by £0 6m in the period Service revenues rose 4 5% on a like-for-like basis year on year – the third successive year of growth

Increased retail revenues in the service area were achieved as more new and used car customers were retained by the Group's service operations following the purchase of their vehicles Overall aftersales margins declined to 40 8% (2012 41 7%) as the Group continued to increase sales of vehicle servicing to the owners of older vehicles at competitive prices In this way the Group is taking market share from the independent aftersales market The proportion of vehicles serviced by the Group over five years old has increased from 25 2% in 2010 to 34 4% in 2013 This demonstrates that the Group's continuing efforts to expand retail service sales away from the typical franchised dealer's core servicing market of the first three years of a new vehicle's ownership (typically covered by the manufacturer's warranty period) are proving to be successful

The accident repair centre sector was again negatively impacted by well documented reductions in accident rates and consequently reductions in body repair activity This trend was seen in the Group's on-going accident repair centres but to a lesser degree than the market fall Revenues fell 4 5% on a like-for-like basis In addition, margins remain under pressure due to on-going overcapacity in the sector

Operating expenses exceptional costs and interest charges are commented on in the Finance Director's report below

Robert Forrester
Chief Executive

Finance Director's Review

Operating expenses and interest charges

Automotive retail is a highly competitive, low margin business Vigorous cost control constitutes a key component in the turning round of an underperforming business acquired by the Group and in maintaining core Group profitability Costs are benchmarked on a monthly basis for every dealership against internal benchmarks and accepted industry key performance indicators to identify opportunities for profit improvement In addition, our central purchasing function has continued relentlessly to pursue and achieve savings and efficiencies in the procurement of all goods and services not-for-resale This has to be achieved without compromising on the customer experience

Operating expenses rose from £121 2m to £138 7m reflecting the increasing size of the Group Total operating expenses as a percentage of revenues reduced to 11 0% (2012 11 1%) Underlying operating expenses rose £4 3m (3 9%) year on year On-going cost reductions to manage the Group's cost base continue where appropriate Redundancy costs relating to the core business of £0 4m were incurred in the period and have been included as a cost within underlying operating expenses in the period £1 6m of the remaining increase arose due to increased commissions and other variable incentives payable as a result of improved profitability at department, dealership and Group level This was in contrast to a year on year reduction in the prior year when Group profitability reduced As the Group has grown further investment has been made in contact centres and other central functions, resulting in an increased cost of £1 1m year on year Vehicle sales departments' headcount has also been increased to ensure the Group takes full advantage of higher sales levels as the market continues to strengthen and this resulted in a £0 5m operating expense increase The Group, in line with other retailers, also continues to see increased occupancy costs such as energy, rates and rents which totalled an increase of £0 7m in the period

The Group generated operating profit from continuing operations before amortisation, share based payments charge and exceptional charges of £11 0m (2012 £8 4m) in the period This growth of 31 0% represents the pent-up profits from the integration and turnaround of acquisitions made in recent periods coming through £1 6m of losses arising from current year acquisitions were recognised in the year and it is expected that performance improvements will significantly improve this position in the coming year

Depreciation rose £0 2m from £3 9m to £4 1m This increase related entirely to new businesses acquired or started during the last two years

Net finance costs in the period increased by £0 1m to £1 2m (2012 £1 1m) due to higher bank interest payable as set out in the table below As acquisitions were undertaken core Group borrowing rose during the period and the Group moved into a net debt position for the first time in a number of years

	Year ended 28 February 2013	Year ended 29 February 2012
	£m	£m
Bank interest payable	1 0	0 7
New vehicle stocking interest payable	0 2	0 3
Pension fund net interest cost	-	0 1
	1.2	**1.1**

Finance Director's Review (continued)

Exceptional charges

Closure costs and asset impairment write-offs were incurred in the year reflecting portfolio changes which arose in the period and an assessment of the impact of on-going losses in the Group's Iveco operations Re-organisation charges related to new acquisitions have also been incurred and total exceptional costs of £3 3m are set out below

	£'m
Re-organisation and closure costs	2 3
Impairment of fixed assets and onerous leases	1 5
Reclaim of VAT overpayment (including interest)	(0 5)
	3 3

Taxation

The effective rate of tax for the year was 21 9% (2012 9 2%) In the prior year the rate was reduced due to the impact of prior year credits arising from the agreement with HMRC of a series of long outstanding issues The current year rate is closer to the UK corporation tax rate of 24% and the Board expects that the Group's tax rate should remain close to the headline UK Corporation Tax rate in the future

Cashflows

The Group continues to be cash generative with an operating cash inflow of £13 0m (2012 £7 5m) in the period The Group has generated £69 5m of operating cashflow in the past five years

The Group invested £19 7m in the period comprising £14 9m in acquiring new businesses and new freehold land and buildings and a further £4 8m in capital expenditure related to property refurbishments and developments to enhance retail environments and to increase the productive capacity of the Group Dealerships held by the Group are maintained to a high standard to deliver excellent representation to our manufacturer partners and an outstanding retail experience The Group disposed of surplus land and buildings of £0 7m at book value in the year The Group's net debt at 28 February 2013 was £6 2m (2012 net cash of £3 5m), which represents 46% of adjusted EBITDA

Financial Position

The Group has a strong balance sheet with shareholders' funds of £106 6m (2012 £100 5m), representing net assets per share of 53 3p (2012 50 4p) Tangible net assets per share were 43 7p (2012 41 6p) The balance sheet is underpinned by a freehold and long leasehold property portfolio of £93 7m (2012 £79 4m)

The Group finances its operations by a mixture of shareholders' equity, bank borrowings and trade credit from suppliers and manufacturer partners The Group has in place a bank loan of £7 5m repayable on an amortising basis by October 2015, and an acquisition facility of £15m available until September 2016 of which £6 0m was drawn at 28 February 2013 Interest is payable on these facilities at LIBOR plus 2 25% and LIBOR plus 1 70% respectively During the period, the Group comfortably complied with all of the financial covenants in respect of these borrowings, which include loan to value, net debt to EBITDA and interest and lease costs to EBITDAR

Finance Director's Review (continued)

Financial Position (continued)

In addition to these loan facilities, the Group has £30m of overdraft and other money market facilities On the overdraft, interest was paid on drawn amounts at 1 5% above Base Rate, and on the money market facilities interest was paid at 1 35% above LIBOR These facilities are available until the next review date of 30 April 2014 The Group operated with cash balances for much of the year and these additional facilities are utilised to fund significant peak working capital requirements following plate change months As at 28 February 2013, the Group had cash balances of £7 2m (2012 £12 9m) and as a consequence net debt of £6 2m (2012 net cash of £3 5m) The borrowings position at 28 February 2013 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 borrowings position is lower than the normalised borrowings balances throughout the remainder of the year by circa £15m The Group's on-going cash generation and the acquisition loan facility, will be used to fund the Group's on-going acquisition strategy

Pensions

The Bristol Street defined benefit pension scheme, which is accounted for on the basis of IAS 19, showed a surplus as at 28 February 2013 of £4 2m (2012 £1 7m) During the year, and in line with the funding programme agreed with the Trustees in 2010, the Group made cash contributions to the scheme of £0 4m (2012 £0 4m) This scheme is closed to future membership and accrual The impact on the Group's reported results of the adoption of IAS19 (revised), the forthcoming accounting standard for pensions which is due to be implemented next year, is not expected to be significant

Post Balance Sheet Events

On 13 May 2013 the Group announced that it had exchanged contracts for the sale of its Iveco heavy trucks business for a cash consideration of £1 5m plus £192,000 of redeemable preference shares in Aquila Truck Centres (Italia) Limited, the purchaser

On 21 May 2013 the Group announced that it had reached conditional agreement with Co-operative Group Limited to acquire the issued share capital of Albert Farnell Limited, which operates three Land Rover dealerships and a specialist used car outlet, for an estimated consideration of £31m to be funded from a placing of shares which is expected to raise £50m The transaction is subject to shareholder approval at a general meeting convened on 7 June 2013, and, subject to satisfying these conditions, is anticipated to complete immediately thereafter

Michael Sherwin
Finance Director

Main Board Directors

The Board currently comprises the Directors outlined below

Paul Williams – Non-Executive Chairman

Paul (66) was Chief Executive of Bristol Street Group Limited until its acquisition by Vertu Motors plc Paul has over thirty years of motor retail experience and is well respected in the motor retail sector This was reflected by his previous roles as Chairman of the National Franchised Dealer Association (NFDA) and the Retail Motor Industry Federation (RMIF)

William Teasdale – Non-Executive Director

Bill (70) is a non-executive director of a number of private companies including British Engines Limited and Bedmax Limited He was non-executive Director and Chairman of the Audit Committee at Reg Vardy plc between 2002 and 2006 Prior to this he was the Senior Partner at the Newcastle upon Tyne office of PricewaterhouseCoopers Bill has substantial experience of corporate transactions and within the quoted company environment

David Forbes – Non-Executive Director

David (53) is a former Managing Director at Rothschild where he has developed his career over 22 years Prior to that he qualified as a Chartered Accountant in 1984 and worked for a number of organisations in corporate finance roles His areas of expertise include mergers, acquisitions, corporate strategy and corporate finance, involving both debt and equity His other non-executive appointments include non-executive directorships at Codex Global and Renew Holdings plc

Nigel Stead - Non-Executive Director

Nigel (63) was previously CEO of Lex Autolease, the UK's largest contract hire and leasing group and a Director of the British Vehicle Rental and Leasing Association He has also been a Non-Executive Director of Motability Operations Group plc and Universal Salvage plc Nigel is currently a Non-Executive Director of Prohire plc and Merrion Fleet Management Limited

Robert Forrester – Chief Executive

Robert (43) was a Director of Reg Vardy plc between 2001 and 2006 where he held the roles of Finance Director and Managing Director Robert qualified as a chartered accountant with Arthur Andersen He is also a member of the Economic Affairs Committee of the Confederation of British Industry and on the Investment committee of St Hugh's College, Oxford

Michael Sherwin – Finance Director

Michael (54) has extensive retail, transactional and public market experience From 1999 to 2008, Michael was Group Finance Director of Games Workshop Group PLC, a FTSE listed consumer goods company Michael is a qualified Chartered Accountant having trained with Price Waterhouse, where he held positions in the UK, Paris and Sydney He was also Non-Executive Director of Plusnet plc, an AIM listed internet business, from 2004-2007

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Corporate and Social Responsibility Report

Introduction

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

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

1. Health and Safety

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

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

There are clear lines of responsibility which are communicated to all colleagues The General Manager is the main responsible individual at each business for all Health and Safety matters supported by a site Health and Safety Co-ordinator A Group Health and Safety Manager is responsible for, monitoring compliance with Health and Safety systems, providing support and advice to the General Managers, monitoring the effectiveness of Health and Safety training across the business, as well as continually assessing the quality of our systems, outputs and recommending improvements The Health and Safety Manager also reports monthly to the Board This year the average audit performance score increased to 95% from 94% and the number of accidents per colleague reduced to 0 2% from 0 44%

2 Environmental Management

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

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

- 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 of by authorised carriers in accordance with the Environmental Protection Act 1990 Relevant hazardous waste producing licences are in place where required and waste transfer notes are logged
- Water based paints are used by our bodyshops and the Group does not use paints containing isocyanates
- Paint spray booths are examined and serviced annually with filters being replaced at the manufacturer recommended intervals
- All redundant and end of life hardware and electrical items are disposed of in accordance with the Waste Electrical and Electronic Equipment Directive (WEEE Directive) regulations

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

Corporate and Social Responsibility Report (continued)

2. Environmental Management (continued)

This year the Group has made a significant effort to increase the volume of recycled waste Currently 59% of dry waste (improved from 48%) is recycled and the Board has set a target of 70% to be achieved in the next 12 months

Vertu Motors plc is a registered participant of the Carbon Reduction Commitment (CRC) scheme operated by the Environment Agency All data submissions and declarations are completed in accordance with the CRC Scheme rules Vertu Motors plc is committed to energy usage reduction and actively monitors energy usage All sites are fitted with Automatic Meter Readers (AMRs) and the Group monitors usage in half hourly segments All General Managers receive energy management/reduction training and have access to on-going support to target usage savings Building and plant efficiency is a core element of our new build and major refurbishment planning This year we commenced installation of photo voltaic solar panels on our new build projects, this includes our new Northampton Vauxhall dealership

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

3. Colleagues

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

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

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

    We are friendly and courteous in all our relationships with colleagues, customers and suppliers
  - **Professionalism**

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

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

Corporate and Social Responsibility Report (continued)

3. Colleagues (continued)

- **Values (continued)**

  - **Recognition**

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

  - **Opportunity**

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

  - **Commitment**

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

- **Employment Policies**

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

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

All appointments are made solely on the basis of a person's suitability for a particular post and without reference to gender, sexual orientation, age, ethnic origin, religion or disability (except when there is a genuine occupational requirement) The principle of equality also applies to career development opportunities and training

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

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

- **Communication**

The Group is committed to providing colleagues with information on matters of concern to them on a regular basis Whilst individual achievement is always recognised, good teamwork is at the core of the business At the heart of this is good communication The Group utilises many formal and informal channels to achieve this, for example, the Chief Executive produces a regular blog, regular updates are posted onto a Group wide intranet site and printed newsletters are produced Each General Manager undertakes a monthly Team Brief, updating colleagues in small groups on relevant issues impacting the Group and the dealership

Corporate and Social Responsibility Report (continued)

3. Colleagues (continued)

- **Communication (continued)**

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

4 Vertu in the Community

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

- **Charity Support and Sponsorship**

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

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

- **Community Support**

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

Directors' Report

The Directors present their annual report and the audited financial statements on the affairs of the Group and Company, for the year ended 28 February 2013

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 and gross margins by channel, an analysis of these KPI's is set out in the Chief Executive's Review on page 7

Principal Risks and Uncertainties

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

- **Economic Conditions**

Profitability is influenced by the economic environment in the United Kingdom Factors such as unemployment and consumer confidence impact on levels of discretionary spending, including vehicle purchases In addition, fuel prices, interest rate movements and changes to levels of taxation on vehicles also have a direct effect on the Group's sales The Group closely monitors several internal and external measures and indicators and management takes action (for example, on selling prices or on costs) as appropriate

- **Vehicle Manufacturer Dependency**

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

- **Used Vehicle Prices**

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

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

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

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

- **Liquidity and Financing Risk**

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

- **Reliance on the Use of Estimates**

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

- **Information Systems**

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

- **Legislative Changes to Vehicle Distribution**

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

- **Exchange Rates**

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

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 £3,536,000 (2012 £5,033,000)

The dividend paid in the year to 28 February 2013 was £1,296,000 (0 65p per share) (2012 £996,000 (0 5p per share)) A final dividend in respect of the year ended 28 February 2013 of 0 45p per share, is to be proposed at the annual general meeting on 25 July 2013 The ex dividend date will be 26 June 2013 and the associated record date 28 June 2013 The dividend will be paid on 29 July 2013, and these financial statements do not reflect this final dividend payable

Company Number

The registered number of the Company is 5984855

Directors and Their Interests

Brief particulars of the Directors are listed on page 12 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 2013 and up to the date of signing the financial statements were

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

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

The Directors who held office at 28 February 2013 and their connected persons had interests in the issued share capital of the Company as at 28 February 2013 as follows

	28 February 2013 Ordinary Shares	**29 February 2012 Ordinary Shares**
P R Williams	2,827,485	2,827,485
R T Forrester	6,364,762	6,329,357
M Sherwin	201,371	160,702
D M Forbes	300,000	200,000
W M Teasdale	563,850	533,850
N Stead	30,000	-

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

Derivatives and Financial Instruments

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

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

The Group has ensured continuity of funding by entering into a five year funding agreement with Barclays Bank on 15 October 2010, comprising a £10m term loan repayable over 5 years and a £15m revolving credit facility On 27 February 2013 the revolving credit facility was renewed and extended to 30 September 2016 Short-term flexibility is achieved through the Group's overdraft and short term committed money market loan facilities These annual facilities were renewed on 29 April 2013 At 28 February 2013 the Group held an interest rate hedge in respect of the outstanding term loan

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

Directors' Report (continued)

Charitable Contributions

The Group's Corporate and Social Responsibility Report is set out on pages 14 to 17 The Group made charitable contributions totalling £24,000 (2012 £32,000), consisting of £24,000 to BEN (Motor and Allied Trades Benevolent Fund)

Colleagues

The policies of the Group on equal opportunities, including those of disabled colleagues and colleague involvement, are set out in the Corporate and Social Responsibility Report on pages 14 to 17

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 vehicle sales and aftersales 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 2013 were equivalent to 53 days (2012 43 days) purchases

Directors' statement as to disclosure of information to Auditors

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

- so far as each of the Directors is aware, there is no relevant audit information of which the Group's auditors are unaware, and,
- each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent Company financial statements respectively,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

Directors' Report (continued)

Statement of Directors' Responsibilities (continued)

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

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

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

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

By order of the Board

Karen Anderson
Company Secretary
21 May 2013

Corporate Governance Report

The UK Corporate Governance Code

As an AIM listed Company, Vertu Motors plc does not have to comply with the UK Corporate Governance Code (2010) (the 'Code') 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 the Code were applied to the Company and Group during the financial year and will continue to be relevant for the forthcoming financial year

Board of Directors

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

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

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

During the financial year the Board met eleven 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	11	2	3	-
P R Williams	11	-	3	-
R T Forrester	11	-	-	-
W M Teasdale	10	2	3	-
D M Forbes	11	2	3	-
M Sherwin	11	-	-	-
N Stead	11	2	3	-

Specific matters are reserved for the decision of the Board, as set out in a written statement adopted by the Board, including overall Group strategy, acquisition and investment policy, approval of major capital expenditure projects, consideration of significant financial matters and risk management The Board also seeks to ensure that the necessary financial and human resources are in place for the Group to be able to meet its objectives, to review management performance and to ensure that its obligations to its shareholders are understood and met Whilst the executive responsibility for running the Group rests with the Chief Executive (R T Forrester) and the Finance Director (M Sherwin), the non-executive Directors fulfil an essential role in ensuring that the strategies proposed by the executive Directors are fully discussed and critically examined prior to adoption They also scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance both financial and non-financial

Corporate Governance Report (continued)

Board of Directors (continued)

All Directors appointed by the Board must retire and seek election at the first Annual General Meeting following their appointment One third of the other Directors are then required to retire and submit themselves for re-election each year so that all Directors are required to retire and submit themselves for re-election at least once in every three years P R Williams and D M Forbes are to retire and submit themselves for re-election by rotation at the 2013 Annual General Meeting The Board is satisfied that plans are in place for orderly succession for appointments to the Board and senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board

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

The Audit Committee

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

Remuneration Committee

The Remuneration Committee consists of the four non-executive Directors (D M Forbes as Chairman, P R Williams, W M Teasdale and N Stead) The Committee met three times in the last financial year with D M Forbes present at each meeting The main duties of the Remuneration Committee are to make recommendations to the Board on the Company's framework of executive remuneration and to award appropriate remuneration packages to individual executive Directors Part of the remuneration may be in the form of bonuses, which can be earned against certain set criteria, based principally on the reported profit on ordinary activities before taxation of the Group It is also responsible for the granting of options, under the Vertu Motors plc Share Option Schemes, to executive Directors and senior management within the Group No executive Director takes part in discussions regarding his own remuneration In addition, the Committee reviews and makes recommendations in respect of the remuneration of senior management of the Group Further details on remuneration are included in the Remuneration 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 Code (2010) recommends that, in general, bonuses should not be pensionable However, the bonus element is regarded by the Committee as an important motivational and retention feature of emoluments

Corporate Governance Report (continued)

Nominations Committee

The Nominations Committee consists of the four non-executive Directors (N Stead as Chairman, P R Williams, D M Forbes and W M Teasdale) The Committee did not meet in in the last financial year The Committee is responsible for selecting candidates who are to be nominated to the Board for directorships whilst approval of all Board appointments will be made by the Board as a whole Succession is a matter considered by the Nominations Committee but ultimately on which the Board as a whole will decide The Committee adopts a formal, rigorous and transparent procedure for the selection and appointment of candidates as Directors This includes setting the criteria for the role and conducting a search, using recruitment consultants where appropriate, to identify appropriate candidates, who are then interviewed to assess their suitability for the role, based on merit and on objective selection criteria

Pension Trustees

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

Relations with Shareholders

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

All shareholders have at least 21 clear days' notice of the Annual General Meeting at which all of the Directors are normally available for questions The Directors believe the Annual General Meeting is an important opportunity for communication with both institutional and private investors and invite questions from shareholders at the meeting In accordance with the Code 2010, details of proxy voting on resolutions are available to shareholders during and after the Annual General Meeting

Internal Controls

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

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

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

- Board of Directors

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

- Mission Statement and Values

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

Corporate Governance Report (continued)

Internal Controls (continued)

- Audit Committee

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

- Risk Champions

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

- Chief Executive's Committee

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

- Policies and Procedures

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

- Financial Reporting

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

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

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

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

Corporate Governance Report (continued)

Going concern

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

The projections assume that profits earned from new and used car sales will remain stable throughout 2013/14, the aftersales business will continue to show growth, UK interest rates will remain static at current rates, manufacturer partners will remain in production and supply on normal terms of trade, and there will be no 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 comfortably remain within its current funding facilities and in compliance with its banking covenants

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

Independence of the Independent Auditors

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

- Statutory audit services

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

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

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

- Other non-audit services

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

By order of the Board

Karen Anderson
Company Secretary
21 May 2013

Remuneration Report

The Board presents the Remuneration Report for the year ended 28 February 2013

Information not subject to audit

Remuneration Committee

The Remuneration Committee comprises the four non-executive Directors, P R Williams, W M Teasdale, D M Forbes and N Stead each of whom is independent from the executive management of the Company and has no personal financial interest in the matters to be decided The Committee is chaired by D M Forbes

General Remuneration Policy

The Company's policy on Directors' remuneration is designed to attract, motivate 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 North East of England 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 2012 to 28 February 2013 for the two executive Directors were £240,000 for the Chief Executive R T Forrester and £180,000 for Finance Director M Sherwin When assessing basic salaries for 2012/13, the Remuneration Committee have fully considered the comparative information available for the sector, including both listed and private businesses The basic salary of R T Forrester will be unchanged at £240,000 for 2013/14 and the basic salary of Michael Sherwin will be unchanged at £180,000 Both salary levels will be reviewed again with effect from 1 March 2014 The Remuneration Committee will review all relevant data as part of a broadly based benchmarking exercise to be conducted in considering what changes are required with effect from 1 March 2014

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 the business has outperformed on key performance metrics It is, therefore, considered that, whilst in overall value terms the non-performance related elements of the Directors' packages may be the most important, in terms of providing motivation to the executive Directors to improve shareholder value, the performance related elements are the most important This consideration accords with the Company's general remuneration policy of rewarding performance through performance related bonuses

Remuneration Report (continued)

General Remuneration Policy (continued)

b) Performance Related Bonus (continued)
R T Forrester and M Sherwin are eligible for performance bonuses which reward achievement of financial performance measured by objectives set by the Remuneration Committee The maximum amount of performance bonus that could have been earned for the year to 28 February 2013 was 150% of basic salary for R T Forrester and 150% of basic salary for M Sherwin

For the 2013/14 financial year, the maximum amount of performance bonus that can be earned was reduced to 130% of basic salary for R T Forrester and 130% of basic salary for M Sherwin Targets for the purpose of bonus payments are based on manufacturer partner customer satisfaction measures and consensus profit forecasts by leading analysts at the commencement of the financial year adjusted for the impact of acquisitions and disposals The consensus profit forecast (adjusted profit before taxation) as at 1 March 2013 was £10m and if this target together with target customer satisfaction measures is achieved the bonus earned by both R T Forrester and M Sherwin will represent 60% of basic salary (2013 80%) In order to achieve maximum bonus, the Company will need to achieve an adjusted profit before taxation of £13 5m as compared to the consensus of £10m in addition to delivering outstanding customer satisfaction across the Group throughout the year

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 The SIP held 0 9% of the Company's issued share capital as at 28 February 2013

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 30 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 (Chief Executive) does not hold any share options in the Company

d) Proposed introduction of Long Term Incentive Plan ("LTIP")

The Remuneration Committee believes that long term incentive plans, which deliver shares at no cost to the participants but are subject to more targeted performance criteria, are a more efficient and effective motivational and retention tool than a traditional share option scheme under which market value options are granted This is also in line with feedback received from a number of the Company's institutional shareholders

The Remuneration Committee therefore proposes to introduce a new long term incentive plan ("LTIP"), a summary of which is set out in the Notice of Annual General Meeting The LTIP has been designed to comply with ABI guidelines in all material respects The Non-Executive Directors of the Company, who comprise the Remuneration Committee, recommend that shareholders vote in favour of the LTIP Resolution at the Annual General Meeting to establish the LTIP

If the LTIP is approved by shareholders, The Executive Directors and certain members of senior management nominated by the Remuneration Committee are entitled to be considered for the grant of awards under the LTIP Awards will take the form of nominal cost options ("Options") which will become exercisable ("vest") subject to the achievement of performance criteria

Remuneration Report (continued)

The LTIP will be used to motivate Group Management, whilst the Existing Scheme will continue to be used to grant options to management other than those members of management who are participants under the LTIP Once an individual becomes a Participant in the LTIP, he/she will not

General Remuneration Policy (continued)

d) Proposed introduction of Long Term Incentive Plan ("LTIP") (continued)

be entitled to any further options under the Existing Scheme There will be no impact in respect of any of the options previously granted under the Existing Scheme

Service Contracts

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

a) Notice Periods

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

b) Termination Payments

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

c) Mitigation Policy

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

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

Details of the Directors' service contracts are as follows

Name	Date of Contract	Term	Notice Period
P R Williams	26 February 2007	Up to 9 years from 27 March 2007	6 months Renewed on re-election every 3 years
R T Forrester	20 December 2006	Rolling from 6 November 2006	12 months
M Sherwin	4 January 2010	Rolling from 25 February 2010	12 months
W M Teasdale	17 November 2006	Up to 9 years from 6 November 2006	6 months Renewed on re-election every 3 years
D M Forbes	10 August 2009	Up to 9 years from 11 August 2009	6 months Renewed on re-election every 3 years
N Stead	8 December 2011	Up to 9 years from 8 December 2011	6 months Renewed on re-election every 3 years

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

Pensions

R T Forrester and M Sherwin are members of the Bristol Street Senior Executives Pension Plan which is a defined contribution plan Details of contributions made in the year are set out on page 32

Remuneration Report (continued)

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

Policy on Performance Criteria (continued)

a) Share Incentive Plan ("SIP")

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

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

Original options under this Scheme were issued prior to 28 June 2008 and 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 The number of such options which have vested and remain outstanding are disclosed in note 30 to the consolidated accounts

Options were issued under this scheme on 18 May 2010 These options may only be exercised if the average share price of the Company over any continuous period of 30 days between 1 August 2012 and 31 July 2013 is above 57p then 50% of the options vest If the share price is between 57p and 62p then a pro-rata proportion of between 50% and 100% of the options vest At an average share price of below 57p then none of the options are exercisable

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

The following share options were issued during the financial year to 28 February 2013, none of these options were issued to the directors of Vertu Motors plc

2,400,000 CSOP options were issued on 12 June 2012 These options may only be exercised if the average share price of the company over any continuous period of 30 days between 1 August 2015 and 31 July 2016 is above 38p then 50% of the options vest If the share price is between 38p and 45p then a pro-rata proportion of between 50% and 100% of the options vest At an average share price of below 38p then none of the options are exercisable

A further 3,090,000 CSOP options were issued on 24 October 2012 These options may only be exercised if the average share price of the company over any continuous period of 30 days between 1 August 2015 and 31 July 2016 is above 45p then 50% of the options vest If the share price is between 45p and 49p then a pro-rata proportion of between 50% and 100% of the options vest At an average share price of below 45p then none of the options are exercisable

Remuneration Report (continued)

Policy on Performance Criteria (continued)

c) Parallel Options

On 20 August, 27 August and 29 October 2009 'parallel' options were granted as the performance criteria attached to existing original share options in issue meant that, while they may vest and become exercisable, they were significantly "under water" and therefore unlikely to have any value These options 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 On 31 July 2012 all of the parallel share options in issue lapsed

Information subject to audit

Remuneration

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

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	240	-	17	260	517
M Sherwin	180	-	6	195	381
D M Forbes	-	30	-	-	30
P R Williams	-	70	-	-	70
W M Teasdale	-	50	-	-	50
N Stead	-	30	-	-	30
	420	180	23	455	1,078

The remuneration of the Directors who served during the year from 1 March 2011 to 29 February 2012 is as follows

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	200	-	20	107	327
M Sherwin	150	-	12	81	243
D M Forbes	-	30	-	-	30
P R Williams	-	70	-	-	70
W M Teasdale	-	50	-	-	50
N Stead	-	7	-	-	7
	350	157	32	188	727

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

Directors' Pension Entitlements

The Company has paid £39,600 (2012 £32,000) in contributions to the defined contribution Bristol Street Pension Scheme during this financial year in respect of R T Forrester and £27,000 (2012 £25,000) in respect of M Sherwin

Directors' Share Incentives

M Sherwin holds the following options over the ordinary shares of the company

	Date of Grant	Exercise Price (Pence)	Exercisable from	Expiry date	Number of Share Options
M Sherwin	18 May 2010	36 75p	19 May 2013	19 May 2020	600,000

These share options were granted under the CSOP approved and unapproved share options scheme

Remuneration Report (continued)

Directors' Share Incentives (continued)

The middle market price of the shares as at 28 February 2013 was 40 3p (29 February 2012 28 8p) and the range during the financial year was 26 8p to 42 5p (2012 22 0p to 35 5p)

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

D M Forbes
Chairman of the Remuneration Committee
21 May 2013

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 2013, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of Directors and auditors

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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2013 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with with IFRS's as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the parent Company financial statements of Vertu Motors plc for the year ended 28 February 2013

Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
21 May 2013

Consolidated Income Statement

For the year ended 28 February 2013

	Note	2013 £'000	2012 £'000
Revenue			
Continuing operations		1,179,878	1,088,262
Acquisitions		79,457	-
		1,259,335	**1,088,262**
Cost of sales			
Continuing operations		(1,040,104)	(958,635)
Acquisitions		(71,125)	-
		(1,111,229)	**(958,635)**
Gross profit			
Continuing operations		139,774	129,627
Acquisitions		8,332	-
		148,106	**129,627**
Operating expenses			
Continuing operations		(128,769)	(121,218)
Acquisitions		(9,945)	-
	6	**(138,714)**	**(121,218)**
Operating profit before amortisation, share based payments charge and exceptional charges			
Continuing operations		11,005	8,409
Acquisitions		(1,613)	-
		9,392	8,409
Amortisation of intangible assets		(291)	(293)
Share based payments charge		(99)	(120)
Exceptional charges	8	(3,606)	(1,311)
Operating profit		**5,396**	**6,685**
Finance income	11	1,374	1,423
Finance costs	11	(2,561)	(2,567)
Exceptional finance income	8	316	-
Profit before tax, amortisation, share based payments charge and total exceptional charges		8,205	7,265
Amortisation of intangible assets		(291)	(293)
Share based payments charge		(99)	(120)
Total exceptional charges	8	(3,290)	(1,311)
Profit before tax		**4,525**	**5,541**
Taxation	12	(989)	(508)
Profit for the year attributable to equity holders		**3,536**	**5,033**
Basic earnings per share (p)	13	**1.77**	**2.53**
Diluted earnings per share (p)	13	**1.76**	**2.53**
Adjusted earnings per share (p)	13	**3.22**	**3.19**

Consolidated Statement of Comprehensive Income

For the year ended 28 February 2013

	Note	2013 £'000	2012 £'000
Profit for the year		3,536	5,033
Other comprehensive income (expense)			
Actuarial gains (losses) on retirement benefit obligations	29	1,937	(1,348)
Deferred tax relating to actuarial (gains) losses on retirement benefit obligations	29	(438)	383
Cash flow hedges	31	34	(290)
Deferred tax relating to cash flow hedges	31	(8)	72
Other comprehensive income (expense) for the year, net of tax		1,525	(1,183)
Total comprehensive income for the year attributable to equity holders		5,061	3,850

Consolidated Balance Sheet

As at 28 February 2013

	Note	2013 £'000	2012 £'000
Non-current assets			
Goodwill	15	21,526	20,620
Other intangible assets	16	1,059	987
Retirement benefit asset	29	4,178	1,690
Property, plant and equipment	18	102,932	87,374
		129,695	110,671
Current assets			
Inventories	20	250,443	208,436
Trade and other receivables	22	43,939	28,248
Cash and cash equivalents	23	7,240	12,859
Total current assets		301,622	249,543
Total assets		431,317	360,214
Current liabilities			
Trade and other payables	24	(295,052)	(238,706)
Deferred consideration	17	(1,251)	-
Current tax liabilities		(2,677)	(3,492)
Borrowings	25	(2,000)	(2,000)
Total current liabilities		(300,980)	(244,198)
Non-current liabilities			
Borrowings	25	(11,454)	(7,349)
Derivative financial instruments	26	(176)	(209)
Deferred consideration	17	(2,600)	-
Deferred income tax liabilities	27	(4,014)	(3,225)
Provisions for other liabilities	28	(5,452)	(4,757)
		(23,696)	(15,540)
Total liabilities		(324,676)	(259,738)
Net assets		106,641	100,476
Capital and reserves attributable to equity holders of the Group			
Ordinary shares	30	20,008	19,928
Share premium	30	60,727	60,506
Shares to be issued	30	2,000	-
Other reserve	30	8,820	8,820
Hedging reserve	31	(133)	(159)
Retained earnings		15,219	11,381
Shareholders' equity		106,641	100,476

These financial statements on pages 36 to 77 have been approved for issue by the Board of Directors on 21 May 2013

Robert Forrester
Chief Executive

Michael Sherwin
Finance Director

Consolidated Cash Flow Statement

For the year ended 28 February 2013

	Note	2013 £'000	2012 £'000
Operating profit		5,396	6,685
Loss (profit) on sale of property, plant and equipment	6	8	(11)
Amortisation of other intangible assets	16	291	293
Depreciation of property, plant and equipment	18	4,142	3,860
Increase in inventories		(6,914)	(8,159)
(Increase) decrease in trade and other receivables		(4,939)	205
Increase in payables		14,196	3,902
Increase in provisions		694	608
Share based payments charge	30	99	120
Cash generated from operations		**12,973**	**7,503**
Tax received		160	11
Tax paid		(1,590)	(1,325)
Finance income received		29	61
Finance costs paid		(1,265)	(945)
Net cash generated from operating activities		**10,307**	**5,305**
Cash flows from investing activities			
Acquisition of businesses, net of cash, overdrafts and borrowings acquired	17	(13,481)	(5,831)
Acquisition of freehold land and buildings		(1,400)	(4,035)
Purchases of intangible fixed assets		(338)	(220)
Purchases of property, plant and equipment		(4,498)	(4,362)
Proceeds from disposal of property, plant and equipment		726	56
Net cash outflow from investing activities		**(18,991)**	**(14,392)**
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		301	-
Repayment of borrowings	32	(2,000)	(500)
Proceeds from borrowings		6,060	-
Dividends paid to Company shareholders		(1,296)	(996)
Net cash inflow (outflow) from financing activities		**3,065**	**(1,496)**
Net decrease in cash and cash equivalents	32	**(5,619)**	**(10,583)**
Cash and cash equivalents at beginning of year		12,859	23,442
Cash and cash equivalents at end of year	23	**7,240**	**12,859**

Consolidated Statement of Changes in Equity

For the year ended 28 February 2013

	Ordinary share capital £'000	Share premium £'000	Shares to be issued £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2012	**19,928**	**60,506**	**-**	**8,820**	**(159)**	**11,381**	**100,476**
Profit for the year	-	-	-	-	-	3,536	3,536
Actuarial gain on retirement benefit obligations (note 29)	-	-	-	-	-	1,937	1,937
Tax on items taken directly to equity (note 27)	-	-	-	-	(8)	(438)	(446)
Fair value gains (note 31)	-	-	-	-	34	-	34
Total comprehensive income for the year	-	-	-	-	26	5,035	5,061
New ordinary shares issued	80	221	-	-	-	-	301
Shares to be issued	-	-	2,000	-	-	-	2,000
Dividend paid	-	-	-	-	-	(1,296)	(1,296)
Share based payments charge	-	-	-	-	-	99	99
As at 28 February 2013	**20,008**	**60,727**	**2,000**	**8,820**	**(133)**	**15,219**	**106,641**

The other reserve is a merger reserve, arising from shares issued for shares as consideration, to the former shareholders of acquired companies The shares to be issued reserve represents the contracted subscription of shares by the vendors of the Dobies (Carlisle) business, set out in note 17 d) Business Combinations Such subscription will complete, and the associated shares admitted to AIM by 30 June 2013

For the year ended 29 February 2012

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2011	**19,928**	**60,506**	**8,820**	**59**	**8,189**	**97,502**
Profit for the year	-	-	-	-	5,033	5,033
Actuarial loss on retirement benefit obligations (note 29)	-	-	-	-	(1,348)	(1,348)
Tax on items taken directly to equity (note 27)	-	-	-	72	383	455
Fair value losses (note 31)	-	-	-	(290)	-	(290)
Total comprehensive (expense) income for the year	-	-	-	(218)	4,068	3,850
Dividend paid	-	-	-	-	(996)	(996)
Share based payments charge	-	-	-	-	120	120
As at 29 February 2012	**19,928**	**60,506**	**8,820**	**(159)**	**11,381**	**100,476**

Notes to the Consolidated Financial Statements

1 Accounting Policies

Basis of Preparation

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

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

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

The consolidated financial statements include the results of all subsidiaries wholly owned by Vertu Motors plc as listed on page 63 of the annual report Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2013 by virtue of s479A of Companies Act 2006 Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2013 by virtue of s394A of Companies Act 2006 In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the parent company Vertu Motors plc has given a statutory guarantee of all the outstanding liabilities as at 28 February 2013 of the subsidiaries listed below, further detail of which is provided in note 33

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2013 by virtue of s479A Companies Act 2006 are

Boydslaw 103 Limited
Bristol Street Commercials (Italia) Limited
Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Compare Click Call Limited
Dobies (Carlisle) Limited
Dunfermline Autocentre Limited
Grantham Motor Company Limited
K C Mobility Solutions Limited
Macklin Property Ltd
Tyne Tees Finance Limited
Vertu Motors (AMC) Limited
Vertu Motors (Durham) Limited
Vertu Motors (Pity Me) Limited
Vertu Motors (Property) Limited
Widnes Car Centre (1994) Limited
Widnes Car Centre Limited

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2013 by virtue of s394A of Companies Act 2006 are

Blake Holdings Limited
Bristol Street (No 1) Limited
Bristol Street (No 2) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
BSH Pension Trustee Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
National Allparts Limited
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (Finance) Limited
Vertu Motors (Retail) Limited
Vertu Motors Third Limited

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

1 Accounting Policies (continued)

Basis of Preparation (continued)

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

Standards and interpretations adopted by the Group in the year ended 28 February 2013

No new and amended standards and interpretations have been adopted as they are currently not relevant to the group

New and amended standards and interpretations effective in the year ended 28 February 2013 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- Amendment to IFRS 7, Financial instruments Transfers of financial assets – The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets
- Amendment to IFRS 1 on Hyperinflation and fixed dates - These amendments include two changes to IFRS 1, 'First-time adoption of IFRS' The first replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation
- Amendment to IAS 12 'Income taxes' on deferred tax – The amendments introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value

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

Effective for periods commencing on or after

IFRS 9 'Financial instruments' 1 January 2015
IFRS 10 'Consolidated financial statements' 1 January 2013
IFRS 11 'Joint arrangements' 1 January 2013
IFRS 12 'Disclosures of interests in other entities' 1 January 2013
IFRS 13 'Fair value measurement' 1 January 2013
IAS 27 (revised 2011) 'Separate financial statements' 1 January 2013
IAS 28 (revised 2011) 'Associates and joint ventures' 1 January 2013
Amendment to IFRS 1,'First time adoption' on government loans 1 January 2013
Amendments to IFRS 7 on 'Financial instruments' asset and liability offsetting 1 January 2013
Amendments to IFRS 10' Consolidated financial statements', IFRS 12 and IAS 27 for investment entities 1 January 2014
Amendments to IFRS 10, 11 and 12 on transition guidance 1 January 2013
Amendment to IAS 1 'Presentation of financial statements' on OCI 1 July 2012
Amendment to IAS 19 (revised 2011) 'Employee benefits' 1 January 2013
Amendments to IAS 32 on Financial instruments asset and liability offsetting 1 January 2014
Annual improvements to IFRSs 2011 1 January 2013

It is considered that the above standards, amendments and interpretations will not have a significant effect on the results or net assets of the Group but will increase the level of disclosure to be made in the financial statements

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

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 Acquisition related costs are expensed to the income statement as incurred

Other intangible assets

Intangible assets, when acquired separately from a business combination, comprise computer software and are carried at cost less accumulated amortisation and any impairment losses

Amortisation is provided on a straight-line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is between four and six years

Intangible assets, for example, customer relationships acquired as part of a business combination, are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition Such assets are stated at fair value less accumulated amortisation Amortisation is provided on a straight line basis over their expected useful lives of twenty years

Property, plant and equipment

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

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Property, plant and equipment (continued)

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value Cost for parts is determined using the first-in, first-out (FIFO) method Costs incurred in bringing each product to its present location and condition are included and cost is based on price including delivery costs less 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

Trade payables

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

Provisions

Provisions for liabilities are recognised when the Group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably measured The provisions recognised solely relate to vehicle warranty product liabilities

1. Accounting Policies (continued)

Impairment of financial and non-financial assets

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

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

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

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

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

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

Taxation

Current tax

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

Deferred tax

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Taxation (continued)

Deferred tax (continued)

against which the temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except

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

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

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

Revenue

Revenue for the sale of goods and services is measured at the fair value of consideration receivable, net of value added tax, rebates and any discounts It excludes sales related taxes and intra Group transactions Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured In practice this means that revenue is recognised when vehicles or parts are invoiced and physically despatched or when a service has been undertaken Revenue also comprises commissions receivable for arranging vehicle financing and related insurance products Commissions are based on agreed rates and income is recognised at the time of approval of the vehicle finance by the finance provider Where the Group is acting as agent on behalf of a principal, the commission earned is also recorded at an agreed rate when the transaction has occurred

Pension costs

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Pension costs (continued)

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

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

Share based payments

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

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

Cash and cash equivalents

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

Segmental reporting

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

Exceptional charges

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

Leases

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

Share capital

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

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

Notes to the Consolidated Financial Statements (continued)

1 Accounting Policies (continued)

Derivative financial instruments (continued)

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

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for

undertaking various hedging transactions The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items

The fair values of derivative financial instruments used for hedging purposes are disclosed in note 26 Movements on the hedging reserve in shareholders' equity are shown in note 31 The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months Any trading derivatives are classified as a current asset or liability

Cash flow hedges

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

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

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

2. Financial risk management

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

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

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

Market Risk – Cash Flow Interest Rate Risk

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

The interest rate exposure of the Group is managed within the constraints of the Group's business plan and the financial covenants under its facilities The Group aims to reduce exposure to the effect of interest rate movements by hedging an appropriate amount of interest

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management (continued)

Market Risk – Cash Flow Interest Rate Risk (continued)

rate exposure The impact of movements in interest rates is managed, where considered appropriate, through the use of interest rate swaps

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

The Group analyses its interest rate exposure The Group has performed calculations to analyse its interest rate exposure taking into account refinancing, renewal of existing positions, alternative financing and hedging

Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift The scenarios are run only for liabilities that represent major interest-bearing positions

Credit Risk

Credit risk arises from cash and deposits with banks as well as credit exposures to customers Individual customer risk limits are set based on external credit reference agency ratings and the utilisation of these credit limits is regularly monitored Further disclosure on credit exposure is given in note 22

Liquidity Risk

Ultimate responsibility for liquidity risk rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities Disclosed within note 25 are the undrawn banking facilities that the Group has at its disposal, in order to further reduce liquidity risk

The table below analyses the Group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date The amounts disclosed in the table are the contractual undiscounted cash flows All borrowings are denominated in sterling Balances due within 12 months equal their carrying balances as the impact of discounting is not significant

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

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	2,347	8,020	10,367
Trade and other payables (excluding social security and other taxes)	235,885	-	235,885
At 29 February 2012	238,232	8,020	246,252

Notes to the Consolidated Financial Statements (continued)

3 Capital risk management

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

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

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

The Group had net debt of £6,214,000 at 28 February 2013 as disclosed in note 32 to the consolidated financial statements (2012 Net cash of £3,510,000)

Fair value estimation

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

4. Critical accounting estimates and judgements

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

Impairment of goodwill

The Group tests annually, or whenever events or changes in circumstances occur, to determine whether goodwill has suffered any impairment, in accordance with the accounting policy stated above and in note 15 The recoverable amounts of cash-generating units have been determined based on value-in-use calculations These calculations require the use of estimates

Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made

Share based payments

The share based payment expense is recognised in each year as it is incurred, based on a fair value model, and estimates of the likely future cash payments to good leavers The key assumptions of this model are disclosed in note 30

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

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

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 are recognised in the

Notes to the Consolidated Financial Statements (continued)

4 Critical accounting estimates and judgements (continued)

Pension benefits (continued)

balance sheet and represent the present value of the obligations calculated by independent actuaries, with input from management These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates These assumptions vary from time to time according to prevailing economic conditions Details of the assumptions used in the year ended 28 February 2013 are provided in note 29

5 Segmental information

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

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

	2013 Revenue £'m	2013 Revenue %	2013 Gross Margin %	2012 Revenue £'m	2012 Revenue %	2012 Gross Margin %
New car retail	384 6	31	7 4	330 9	30	7 4
New fleet and commercial	316 0	25	2 3	270 1	25	2 3
Used cars	431 9	34	11 3	374 8	34	11 1
After-sales	126 8	10	40 8*	112 5	11	41 7*
	1,259.3	**100**	**11.8**	**1,088.3**	**100**	**11.9**

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

Notes to the Consolidated Financial Statements (continued)

6. Operating expenses

	2013 £'000	2012 £'000
Wages and salaries excluding share based payments Charges (note 9)	77,942	67,180
Depreciation on property, plant and equipment (note 18)	4,142	3,860
Loss (profit) on disposal of property, plant and equipment	8	(11)
Operating lease rentals – property	5,867	5,639
Operating lease rentals – plant and equipment	147	160
Operating lease rentals – vehicles	1,833	1,747
Auditors' remuneration (note 7)	164	175
Other expenses	48,611	42,468
	138,714	121,218

7 Auditors' remuneration

	2013 £'000	2012 £'000
Fees payable to the Company's auditors for the audit of the parent Company and consolidated financial statements	140	145
Fees payable to the Company's auditors and its associates for other services		
- audit of Group's subsidiaries	12	30
- other services pursuant to legislation	12	-
	164	175

8. Exceptional charges

	2013 £'000	2012 £'000
Reorganisation and closure costs	2,315	1,311
Impairment of fixed assets and onerous leases	1,464	-
Reclaims of VAT overpayments	(173)	-
	3,606	1,311
Interest element of VAT repayment	(316)	-
	3,290	1,311

Reorganisation and closure costs relate to new acquisitions and portfolio restructuring during the current year The impairment of fixed assets and onerous leases relate to properties vacated or disposed of, and to an assessment of the impact of the on-going losses in the Group's Iveco operations The VAT repayment relates to the final resolution of an historic VAT reclaim

Notes to the Consolidated Financial Statements (continued)

9. Employee benefit expense

	2013 £'000	2012 £'000
Wages and salaries	81,601	71,041
Social security costs	6,712	5,844
Pension costs – defined contribution plans	1,377	1,014
	89,690	77,899
Share based payments charge (note 30)	99	120
	89,789	78,019

Employee benefit expense included in

	2013 £'000	2012 £'000
Operating expenses	77,942	67,180
Cost of sales	11,748	10,719
Share based payment costs	99	120
	89,789	78,019

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

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	240	-	17	260	517
M Sherwin	180	-	6	195	381
D M Forbes	-	30	-	-	30
P R Williams	-	70	-	-	70
W M Teasdale	-	50	-	-	50
N Stead	-	30	-	-	30
	420	180	23	455	1,078

The remuneration of the Directors who served during the year from 1 March 2011 to 29 February 2012 is as follows

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	200	-	20	107	327
M Sherwin	150	-	12	81	243
D M Forbes	-	30	-	-	30
P R Williams	-	70	-	-	70
W M Teasdale	-	50	-	-	50
N Stead	-	7	-	-	7
	350	157	32	188	727

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

The Company has paid £39,600 (2012 £32,000) in contributions to the defined contribution Bristol Street Pension Scheme during this financial year in respect of R T Forrester and £27,000 (2012 £25,000) in respect of M Sherwin

The Remuneration Report on pages 28 to 33 contains further details of remuneration of the Directors employed by the Company

Notes to the Consolidated Financial Statements (continued)

10 Average number of people employed (including Directors)

	Number 2013	Number 2012
Sales and distribution	1,154	1,100
Service, parts and accident repair centres	1,224	1,130
Administration	681	592
	3,059	2,822

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

	Number 2013	Number 2012
Sales and distribution	1,278	1,106
Service, parts and accident repair centres	1,304	1,147
Administration	729	636
	3,311	2,889

11 Finance income and costs

	2013 £'000	2012 £'000
Interest on short term bank deposits	29	61
Other finance income relating to Group pension scheme (note 29)	1,345	1,362
Finance income	1,374	1,423
Bank loans and overdrafts	(964)	(809)
Vehicle stocking interest	(206)	(267)
Other finance costs relating to Group pension scheme (note 29)	(1,372)	(1,477)
Other finance costs	(19)	(14)
Finance costs	(2,561)	(2,567)

12 Taxation

	2013 £'000	2012 £'000
Current tax		
Current tax charge	1,392	1,647
Adjustment in respect of prior years	(746)	(786)
Total current tax	646	861
Deferred tax		
Origination and reversal of temporary differences	295	(305)
Adjustment in respect of prior years	330	182
Rate differences	(282)	(230)
Total deferred tax (note 27)	343	(353)
Income tax expense	989	508

Notes to the Consolidated Financial Statements (continued)

12 Taxation (continued)

	2013 £'000	2012 £'000
Comprising		
Taxation – excluding exceptional charges	1,712	770
Taxation – exceptional charges	(723)	(262)
	989	508
Factors affecting taxation expense in the year		
Profit before taxation and exceptional charges	7,815	6,852
Exceptional charges	(3,290)	(1,311)
Profit before taxation from continuing operations	4,525	5,541
Profit before taxation multiplied by the rate of corporation tax in the UK of 24 17% (2012 26 17%)	1,094	1,450
Non-deductible amortisation	70	76
Non-qualifying depreciation	341	83
Non-deductible expenses	215	115
Effect on deferred tax balances due to rate change	(282)	(230)
Small companies rate	(3)	(3)
Property adjustment	89	(257)
Permanent benefits	(78)	(116)
Utilisation of unprovided deferred tax	(41)	(6)
Adjustments in respect of prior years	(416)	(604)
Total tax expense included in the income statement	989	508

The standard rate of Corporation Tax in the UK changed from 26% to 24% with effect from 1 April 2012 Accordingly, the Group's profits for this accounting period are taxed at an effective rate of 24 17%

13 Earnings per share

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

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

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

13. Earnings per share (continued)

	2013 £'000	2012 £'000
Profit attributable to equity shareholders	3,536	5,033
Amortisation of intangible assets	291	293
Share based payments charge	99	120
Exceptional charges	3,290	1,311
Tax effect of adjustments	(788)	(401)
Adjusted earnings attributable to equity shareholders	**6,428**	**6,356**
Weighted average number of shares in issue ('000s)	199,459	199,278
Potentially dilutive shares ('000s)	881	14
Diluted weighted average number of shares in issue ('000s)	**200,340**	**199,292**
Basic earnings per share	**1.77p**	**2.53p**
Diluted earnings per share	**1.76p**	**2.53p**
Adjusted earnings per share	**3.22p**	**3.19p**
Diluted adjusted earnings per share	**3.21p**	**3.19p**

14. Dividends per share

The dividends paid in the year to 28 February 2013 were 0 65p per share in total (2012 0 5p) A final dividend in respect of the year ended 28 February 2013 of 0 45p per share, is to be proposed at the annual general meeting on 25 July 2013 The ex dividend date will be 26 June 2013 and the associated record date 28 June 2013 This dividend will be paid on 29 July 2013 and these financial statements do not reflect this final dividend payable

15 Goodwill

	2013 £'000	2012 £'000
Cost and net book value		
At beginning of year	20,620	20,509
Additions (note 17)	906	111
At end of year	**21,526**	**20,620**

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

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

In the years ended 28 February 2013 and 29 February 2012, the acquired goodwill was tested for impairment, with no goodwill impairment charge deemed necessary

Notes to the Consolidated Financial Statements (continued)

15. Goodwill (continued)

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

A summary of the goodwill purchased is presented below

	2013 £'000	2012 £'000
Bristol Street Group Limited	13,860	13,860
Blake Holdings Limited	1,366	1,366
Grantham Motor Company Limited	3,209	3,209
Boydslaw 103 Limited	1,452	1,452
Other acquisitions	1,639	733
	21,526	20,620

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

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

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

An annual growth rate of 3% is assumed for the first five years, after which a growth rate of 0% is assumed to perpetuity A risk adjusted post-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 7 3% (2012 7 3%) is applied A post-tax WACC of above 10% has to be applied before any entity impairment arises A negative growth rate of greater than -6% has to be applied before any impairment arises

16. Other intangible assets

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

16. Other intangible assets (continued)

2012	Software costs £'000	Customer relationships £'000	Total £'000
Cost			
At 1 March 2011	1,321	534	1,855
Additions	220	-	220
At 29 February 2012	1,541	534	2,075
Accumulated amortisation			
At 1 March 2011	690	105	795
Charge for the year	266	27	293
At 29 February 2012	956	132	1,088
Net book value at 29 February 2012	585	402	987
Net book value at 28 February 2011	631	429	1,060

17. Business combinations

a) Trade and assets of Durham and Hartlepool Ford from Holiways Limited

On 28 June 2012 the Group acquired the trade and certain assets of Durham and Hartlepool Ford from Holiways Limited for total estimated cash consideration of £2,984,000

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

	Fair Value £'000
Property, plant and equipment	2,991
Inventories	88
Trade and other payables	(95)
	2,984
Goodwill	-
Consideration – satisfied by cash	2,984

Acquisition related costs (included in exceptional charges in the consolidated income statement for the year ended 28 February 2013) totalled £60,000

b) Trade and assets of certain dealerships acquired from Co-operative Group Motors Limited

On 8 September 2012 the Group acquired the trade and certain assets of a Nissan and Renault business in Bradford, a Nissan, Renault and Fiat business in Derby and a Nissan and Peugeot business in Ilkeston from Co-operative Group Motors Limited

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

	Fair Value £'000
Property, plant and equipment	3,321
Inventories	2,419
Trade and other receivables	12
Trade and other payables	(143)
	5,609
Goodwill	-
Consideration	5,609

17 Business combinations (continued)

The total consideration of £5,609,000 consisted of cash of £1,709,000 and deferred consideration totalling £3,900,000 The deferred consideration is payable in three equal instalments of £1,300,000 payable on the first, second and third anniversaries of the acquisition completion date The deferred consideration is secured by way of a specific legal charge over freehold property

Acquisition related costs (included in exceptional charges in the consolidated income statement for the year ended 28 February 2013) totalled £103,000

d) Trade and assets of certain Honda dealerships acquired from Springfield Cars Limited

On 30 November 2012 the Group acquired the trade and certain assets of three Honda dealerships in Newcastle, Durham and Sunderland from Springfield Cars Limited Consideration for this acquisition amounted to £3,185,000 and was satisfied in cash On 7 December 2012 the vendor, Springfield Cars Limited, subscribed for 797,872 ordinary shares in the Company in connection with this acquisition

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

	Fair Value £'000
Property, plant and equipment	200
Inventories	2,369
Trade and other receivables	13
Trade and other payables	(172)
	2,410
Goodwill	775
Consideration	3,185

Acquisition related costs (included in exceptional charges in the consolidated income statement for the year ended 28 February 2013) totalled £110,000

The goodwill arising is attributable to the workforce of the acquired businesses

e) Acquisition of Dobies (Carlisle) Limited and the trade and certain assets of a Vauxhall and SEAT business in Carlisle

On 7 January 2013 the Group acquired the entire issued share capital of Dobies (Carlisle) Limited and the trade and certain assets of a Vauxhall and SEAT business in Carlisle from Dobies Cumbria Limited and certain individuals

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

	Fair Value £'000
Intangible assets acquired	25
Property, plant and equipment	2,984
Inventories	1,083
Trade and other receivables	229
Cash and cash equivalents	37
Trade and other payables	(149)
	4,209
Goodwill	-
Consideration	4,209

The total estimated consideration of £4,209,000 consisted of cash, net of cash and cash equivalents acquired of £2,172,000 and deferred consideration estimated at £2,000,000 The deferred consideration is subject to adjustment for any movement in acquired net asset values

Notes to the Consolidated Financial Statements (continued)

17. Business combinations (continued)

These movements have yet to be finalised The Vendors have agreed to subscribe for shares in Vertu Motors plc, at an agreed price of 39 pence per share, in the value of the final deferred consideration received by them

Acquisition related costs (included in exceptional charges in the consolidated income statement for the year ended 28 February 2013) totalled £136,000

f) Other acquisitions

On 29 June 2012 the Group acquired a Suzuki dealership in Mansfield through the purchase of trade and certain assets from Co-operative Group Motors Limited Consideration was satisfied in cash

On 13 December 2012 the Group acquired a Vauxhall dealership in Harrogate, through the purchase of the trade and certain assets of the business from the administrative receivers of Nidd Vale Motors Limited Consideration was paid in cash

On 11 January 2013 the Group acquired a Vauxhall dealership in Keighley through the purchase of trade and certain assets from Walter C Brigg Limited Consideration of the acquisition was satisfied by cash

Details of the consolidated net assets acquired for these acquisitions at fair value and goodwill arising was paid as follows

	Fair Value £'000
Property, plant and equipment	1,546
Inventories	1,912
Trade and other receivables	56
Trade and other payables	(214)
Net assets acquired	**3,300**
Goodwill	131
Consideration – satisfied in cash	**3,431**

Acquisition related costs (included in exceptional charges in the consolidated income statement for the year ended 28 February 2013) totalled £145,000 in respect of these acquisitions

The goodwill arising is attributable to the workforce of the acquired businesses

Summary of acquisitions' cash consideration

	Cash Consideration £'000	Cash Acquired £'000	Total £'000
Former Holiways business	2,984	-	2,984
Former Co-operative Group Motors business	1,709	-	1,709
Former Springfield Cars business	3,185	-	3,185
Dobies (Carlisle) Limited and former Dobies Cumbria business	2,209	(37)	2,172
Other acquisitions	3,431	-	3,431
	13,518	(37)	13,481

Notes to the Consolidated Financial Statements (continued)

18 Property, plant and equipment

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

* Includes leasehold improvements

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

Depreciation expense of £4,142,000 has been charged in operating expenses (note 6)

In addition to the security provided for the Group's bank borrowings, specific charges over freehold land and buildings amounting to £10,900,000 (2012 £10,900,000) have been granted to manufacturer partners as security against consignment stocking lines Furthermore specific charges over freehold land and buildings with a cost of £4,422,000 have been granted to the Co-operative Group as security for deferred consideration on businesses acquired in the financial year, described in note 17

Notes to the Consolidated Financial Statements (continued)

18. Property, plant and equipment (continued)

2012	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 2011	70,000	3,563	3,026	3,463	80,052
Acquisitions	6,431	-	182	64	6,677
Additions	1,765	186	744	1,215	3,910
Disposals	(182)	(42)	(477)	(593)	(1,294)
Reclassifications	6,630	(12)	-	12	6,630
At 29 February 2012	84,644	3,695	3,475	4,161	95,975
Accumulated depreciation					
At 1 March 2011	3,839	472	768	910	5,989
Depreciation charge	1,542	296	937	1,085	3,860
Disposals	(182)	(42)	(440)	(584)	(1,248)
At 29 February 2012	5,199	726	1,265	1,411	8,601
Net Book Value					
At 29 February 2012	79,445	2,969	2,210	2,750	87,374
At 28 February 2011	66,161	3,091	2,258	2,553	74,063

* Includes leasehold improvements

Notes to the Consolidated Financial Statements (continued)

19. Subsidiary undertakings

Significant subsidiary undertakings (ordinary shares 100% owned and incorporated within the United Kingdom), as at 28 February 2013 and 29 February 2012 were

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

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), were acquired in the year ended 28 February 2013

Company	Principal activity
Dobies (Carlisle) Limited	Motor retailer*

* On 7 January 2013 the trade and assets of this subsidiary were transferred to other wholly owned subsidiaries of the Group, thereafter this subsidiary is a dormant company

Notes to the Consolidated Financial Statements (continued)

20 Inventories

	2013 £'000	2012 £'000
New vehicles	189,045	158,571
Used, demonstrator and courtesy vehicles	50,557	38,606
Parts and sundry stocks	10,841	11,259
	250,443	208,436

The cost of inventories recognised as expense and included within 'cost of sales' amounted to £1,142,739,000 (2012 £987,728,000)

Motor vehicles include new vehicles invoiced not yet paid and held by manufacturers to the order of the Group of £163,292,000 (2012 £139,181,000) A corresponding liability is held within trade payables

21 Property assets held for sale

	2013 £'000	2012 £'000
At beginning of year	-	6,630
Transfers to freehold property	-	(6,630)
At end of year	-	-

During the year ended 29 February 2012, property assets held for resale were transferred to fixed assets at their estimated realisable value of £6,630,000

22 Trade and other receivables

	2013 £'000	2012 £'000
Trade receivables	22,363	17,905
Less provision for impairment of trade receivables	(497)	(473)
Trade receivables (net)	**21,866**	**17,432**
Other receivables	17,565	6,674
Prepayments and accrued income	4,508	4,142
	43,939	28,248

As at 28 February 2013, trade receivables of £1,217,000 (2012 £698,000) were past due but not impaired The ageing of these receivables are all within 3 months overdue

As at 28 February 2013, trade receivables of £497,000 (2012 £473,000) were impaired and provided for

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

	2013 £'000	2012 £'000
At beginning of year	473	469
Charge for receivables impairment	590	532
Receivables written off during the year as uncollectible	(299)	(152)
Unused amounts reversed	(267)	(376)
At end of year	497	473

22. Trade and other receivables (continued)

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

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

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

Credit Risk Management

It is the Group's policy to invest cash and assets safely and profitably To control credit risk, counterparty credit limits are set by reference to published credit ratings The Group considers the risk of material loss in the event of non-performance by a financial counterparty to be low The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above

23 Cash and cash equivalents

	2013 £'000	2012 £'000
Cash in bank and in hand	7,240	12,859

24 Trade and other payables

	2013 £'000	2012 £'000
Current		
Trade payables	259,022	210,905
Social security and other taxes	3,099	2,821
Accruals and deferred income	20,431	12,980
Other payables	12,500	12,000
	295,052	238,706

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

Trade and other payables, excluding social security and other taxes, are designated as financial liabilities carried at amortised cost Their fair value is deemed to be equal to their carrying value

Notes to the Consolidated Financial Statements (continued)

25. Borrowings

	2013 £'000	2012 £'000
Current		
Bank borrowings	2,000	2,000
Non-current		
Bank borrowings	11,454	7,349
	13,454	9,349

Borrowings are repayable as follows

	2013 £'000	2012 £'000
6 months or less	1,000	1,000
6-12 months	1,000	1,000
1-5 years	11,454	7,349
	13,454	9,349

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 2013, loans were subject to an interest rate of 2 25% above LIBOR On 27 February 2013, the Group's £15,000,000 revolving credit facility was extended to 30 September 2016 The interest rate applicable to this loan reduced upon renewal of these facilities to 1 70% above LIBOR A rate of 1 50% above base rate has been applied in relation to overdrafts and a rate of 1 35% above LIBOR has been applied on the Group's Committed Money Market Loan ("CMML") facility These rates have been retained on renewal of these facilities on 29 April 2013 The bank borrowings are secured on the assets of the Company and the Group

The Group has the following undrawn borrowing and overdraft facilities

	2013 £'000	2012 £'000
Floating rate		
- Overdraft (uncommitted) expiring in one year	5,000	5,000
- CMML (committed) facility expiring in one year	30,000	20,000
- Loan facility expiring in greater than one year	9,000	15,000
	44,000	40,000

b) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £7,240,000 (2012 £12,859,000) 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

Notes to the Consolidated Financial Statements (continued)

26. Derivative financial instruments

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

	2013 Non-current Liabilities £'000	2012 Non-current Assets £'000
Interest rate swaps – cash flow hedges	176	209

The notional principle amounts of the outstanding interest rate swap contracts at 28 February 2013 were £7,500,000 (2012 £9,500,000) This interest rate swap amortises as repayments are made of the underlying term loan, finally maturing on 15 October 2015

The movement on the hedging reserve within shareholders' equity is shown within note 31

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

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

The fair values of the interest rate swaps have been determined using a level 3 valuation technique with non-observable inputs obtained from the counterparty (2012 level 3)

27. Deferred income tax liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority The amounts offset are as follows

	2013 £'000	2012 £'000
Deferred tax asset to be recovered after more than 12 months	(609)	(574)
Deferred tax liabilities to be recovered after more than 12 months	4,623	3,799
Deferred tax liabilities (net)	4,014	3,225

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

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

27. Deferred income tax liabilities (continued)

2012	**Deferred tax liabilities £'000**	**Deferred tax assets £'000**	**Net £'000**
At 1 March 2011	4,270	(254)	4,016
Acquired in the year	17	-	17
Credited to income statement (note 12)	(105)	(248)	(353)
Credited directly to equity	(383)	(72)	(455)
At 29 February 2012	3,799	(574)	3,225

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

2012	**Accelerated tax depreciation £'000**	**Share based payments £'000**	**Pensions £'000**	**Other timing differences £'000**	**Tax losses £'000**	**Total £'000**
At 1 March 2011	3,360	(33)	616	75	(2)	4,016
(Credited) charged to income statement	(314)	(32)	190	(199)	2	(353)
Acquired in the year	17	-	-	-	-	17
Credited directly to equity	-	-	(383)	(72)	-	(455)
At 29 February 2012	3,063	(65)	423	(196)	-	3,225

The Finance Act 2012, which was substantively enacted on 17 July 2012, included provisions to reduce the rate of corporation tax to 24% with effect from 1 April 2012, and 23% with effect from 1 April 2013 Accordingly, deferred tax balances have been revalued at the lower rate of 23% in these accounts

The Government announced in the 2013 Budget a further reduction in the rate of corporation tax to 21% with effect from 1 April 2014 and by a further 1% to 20% with effect from 1 April 2015 As these rate changes were announced after the company's year end of 28 February 2013, the impact of these changes is not reflected in the tax provisions reported in these accounts If the deferred tax liability was all to reverse after 1 April 2015, the effect of the future rate changes from 23% to 20% would be to reduce the net deferred tax liability by £524,000 to £3,490,000

Notes to the Consolidated Financial Statements (continued)

28. Provisions for other liabilities

	2013 £'000	2012 £'000
At beginning of year	4,757	4,150
Charged to the income statement (additional provisions)	5,324	4,594
Credited to the income statement (unused amounts reversed)	(507)	(458)
Utilised during year	(4,122)	(3,529)
At end of year	5,452	4,757

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

29. Retirement benefit obligations

The Group operates a contributory pension scheme, "Bristol Street Pension Scheme", which has three defined benefit sections (in which accrual ceased on 31 May 2003) and a defined contribution section The assets of the scheme are held separately from those of the Group, being held in separate funds by the Trustees of the Bristol Street Pension Scheme

Regular employer contributions to the defined benefit section of the scheme (including contributions paid in respect of scheme expenses) for the year commencing 1 March 2013 are estimated to be £364,000

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

The last actuarial valuation upon which the IAS 19 figures and disclosures have been based was at 5 April 2012 The present values of the defined benefit obligation and any past service costs were measured using the projected unit credit method

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

	Expected rate of return 28 February 2013 %	Market Value 28 February 2013 £'000	Expected rate of return 29 February 2012 %	Market Value 29 February 2012 £'000
Equities	7 0	13,553	7 1	11,263
Bonds	3 5	19,974	3 5	19,231
Other	4 2	650	4 5	1,212
	4 9	34,177	4.8	31,706

The Group 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 2013

29 Retirement benefit obligations (continued)

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

	2013 £'000	2012 £'000
Fair value of Scheme assets	34,177	31,706
Present value of funded obligations	(29,999)	(30,016)
Asset on the balance sheet	4,178	1,690

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

	2013 £'000	2012 £'000
Opening fair value of Scheme assets	31,706	29,021
Expected return on Scheme assets	1,345	1,362
Actuarial gains	1,550	1,489
Employer contributions	578	858
Benefits paid	(1,002)	(1,024)
As at end of year	34,177	31,706

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

	2013 £'000	2012 £'000
Opening fair value of Scheme liabilities	30,016	26,726
Interest cost	1,372	1,477
Actuarial (gains) losses	(387)	2,837
Benefits paid	(1,002)	(1,024)
Closing fair value of Scheme liabilities	29,999	30,016

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

	2013 £'000	2012 £'000
Interest cost (note 11)	1,372	1,477
Expected return on Scheme assets (note 11)	(1,345)	(1,362)
Total, included in net finance costs	27	115

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

	2013 £'000	2012 £'000
Expected return on Scheme assets	1,345	1,362
Actuarial gains	1,550	1,489
	2,895	2,851

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

	2013	2012
Discount rate for Scheme liabilities	4 5%	4 7%
Limited Price Indexation ("LPI") pension increases	3 2%	3 0%
Inflation rate	2 2%	2 0%

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

Notes to the Consolidated Financial Statements (continued)

29. Retirement benefit obligations (continued)

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

	2013	2012
Male	22	22
Female	24	24

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

	2013	2012
Male	24	24
Female	26	26

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

	2013 £'000	2012 £'000
Actuarial gains (losses)	1,937	(1,348)
Related deferred tax (liability) asset (note 27)	(438)	383
Total, included within retained earnings	1,499	(965)
Cumulative actuarial gains (losses)	69	(1,868)

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Defined benefit obligation	(29,999)	(30,016)	(26,726)	(27,591)	(21,053)
Scheme assets	34,177	31,706	29,021	27,096	21,183
Surplus (deficit)	4,178	1,690	2,295	(495)	130
Experience adjustments on liabilities	1,478	-	-	63	(318)
Experience adjustments on assets	1,550	1,489	1,319	4,254	(6,426)

Notes to the Consolidated Financial Statements (continued)

30. Ordinary shares, share premium and other reserves

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

On 7 December 2012 the Company allotted 797,872 ordinary shares in connection with the acquisition of the trade and assets of Springfield Cars Limited

The other reserve is a merger reserve, arising from shares issued for shares, as consideration to the former shareholders of acquired businesses The shares to be issued reserve represents the contracted subscription of shares by the vendors of the Dobies (Carlisle) business, set out in note 17 d) Business Combinations Such subscription will complete, and the associated shares admitted to AIM by 30 June 2013

2012	**Ordinary shares of 10p each Number of Shares ('000)**	**Ordinary shares £'000**	**Share premium £'000**	**Other reserve £'000**	**Total £'000**
At 1 March 2011 and 29 February 2012	**199,278**	**19,928**	**60,506**	**8,820**	**89,254**

Share Option Schemes

Under the Group's equity-settled share option schemes, share options are granted to certain executive Directors and to selected employees The exercise price of the granted options is equal to the market price of the shares on the date of the grant Options are conditional on the employee completing three years' service (the vesting period) The options are exercisable starting three years from grant date, subject to the performance criteria set out in the Remuneration Report on pages 28 to 33 The Group has no legal or constructive obligation to repurchase or settle the options in cash

As disclosed in the Consolidated Income Statement on page 36 a share based payments charge of £99,000 (2012 £120,000) has been recognised during the year, in relation to the schemes as described within the Remuneration Report on pages 28 to 33

Notes to the Consolidated Financial Statements (continued)

30 Ordinary shares, share premium and other reserves (continued)

Share Option Schemes (continued)

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

Award Date	Granted / Outstanding at 28 February 2013 No of shares	Granted / Outstanding at 29 February 2012 No of shares	Exercise Price p	Date from which exercisable	Expiry Date
4 May 2007*	111,111	111,111	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*	591,549	591,549	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*	58,000	58,000	40p	1 Apr 2011	1 Apr 2018
21 May 2008*	167,200	167,200	44p	21 May 2011	21 May 2018
27 Jun 2008*	8,800	8,800	38 3p	27 Jun 2011	27 Jun 2018
20 Aug 2009	-	5,440,000	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
18 May 2010	1,240,000	1,300,000	36 75p	19 May 2013	19 May 2020
28 Nov 2011	1,430,000	1,550,000	26 0p	1 Aug 2015	28 Nov 2021
12 Jun 2012	2,400,000	-	27 5p	1 Aug 2016	12 Jun 2022
24 Oct 2012	3,040,000	-	39 25p	1 Aug 2016	12 Jun 2022
	9,867,805	10,767,805			

*Vested

Movements in the number of share options outstanding are as follows

	2013 No of share options	2012 No of share options
At beginning of year	10,767,805	10,296,441
Granted	5,490,000	1,570,000
Lapsed	(6,100,000)	(240,800)
Forfeited	(290,000)	(857,836)
At end of year	**9,867,805**	**10,767,805**

On 20 and 27 August 2009, the Group issued 4,980,000 parallel share options one of the criteria of these share options is that only either existing options or the parallel options are able to be exercised Therefore, the options listed in the 2012 reconciliation above contain options that cannot ever be exercised On 31 July 2012 the parallel options lapsed

All options were granted at nil consideration The middle market price of the shares as at 28 February 2013 was 40 3p (2012 28 8p) and the range during the financial year was 26 8p to 42 5p (2012 22 0p to 35 5)

The weighted average share price during the year was 33 3p (2012 28 4p)

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

Share Option Schemes (continued)

The weighted average fair value of options granted during the year, determined using the Black-Scholes model was 9p (2012 5p) per option

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

Vesting period	3 years
Expected volatility	20%
Option life	7 years
Expected life	5 years
Annual risk-free interest rate	1 0%
Dividend yield	2%

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

31. Hedging reserve

The hedging reserve comprises cashflow hedges in relation to interest rate swap derivatives The movements on the hedging reserve are as follows

	2013 £'000	2012 £'000
At beginning of year	(159)	59
Fair value gains (losses) on derivative financial instruments during the year	34	(290)
Deferred taxation on fair value gains (losses) during year	(8)	72
At end of year	(133)	(159)

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

	2013 £'000	2012 £'000
Net decrease in cash and cash equivalents	(5,619)	(10,583)
Cash inflow from increase in borrowings	(6,060)	-
Cash outflow from repayment of borrowings	2,000	500
Cash movement in net (debt) cash	**(9,679)**	**(10,083)**
Capitalisation of loan arrangement fees	128	76
Amortisation of loan arrangement fee	(173)	(122)
Non-cash movement in net (debt) cash	**(45)**	**(46)**
Movement in net (debt) cash	**(9,724)**	**(10,129)**
Opening net cash	**3,510**	**13,639**
Closing net (debt) cash	**(6,214)**	**3,510**

33. Contingencies

Contingent assets

Additional amounts may be receivable from HM Revenue & Customs, "HMRC", in respect of overpayments in Value Added Tax in previous years These will not be recognised until they have been agreed

Contingent liabilities

Under sections 394C and 479C of the Companies Act 2006, the parent company Vertu Motors plc has guaranteed all outstanding liabilities to which the subsidiaries listed on page 41 were subject at the end of 28 February 2013 until they are satisfied in full These liabilities total £318,484,000 (including intercompany loans of £61,416,000) Such guarantees are enforceable against Vertu Motors plc by any person to whom any such liability is due

34. Commitments

a) Capital Commitments

Capital commitments in respect of property, plant, and equipment amounting to £2,187,000 were outstanding as at 28 February 2013 (2012 £786,000)

b) Operating Lease Commitments

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

The future aggregate minimum lease payments under non-cancellable operating leases, ignoring property tenant only lease breaks, are as follows

	2013		2012	
	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	6,203	1,601	5,477	1,670
Later than 1 year and no later than 5 years	23,265	600	20,313	622
Later than 5 years	49,709	-	45,933	-
	79,177	2,201	71,723	2,292

35 Related party transactions

Key management personnel are defined as the Directors of the Group The remuneration of the Directors who served during the year ended 28 February 2013 is set out in note 9

Vertu Motors plc is a member of Trusted Dealers Limited, a company limited by guarantee, which was set up to operate a used car sales website The company was set up as a consortium by a significant number of the UK's leading automotive retailers R Forrester is also an unpaid non-executive director of Trusted Dealers Limited As a member, Vertu Motors plc may receive an enhanced entitlement to share in rebates (based on advertising with the site and determined annually by the board of Trusted Dealers Limited), but has no right to receive dividends or other shares of profit There are currently 54 other members

Notes to the Consolidated Financial Statements (continued)

35. Related party transactions (continued)

Nigel Stead, a Director of the Company also sits on the Board of Prohire plc The Group sells vehicles and provides aftersales services to Prohire plc on normal commercial terms In the year ended 28 February 2013, sales of vehicles to Prohire plc totalled £3,097,000 (2012 £959,000) The value of aftersales services invoiced in the same period was £30,000 (2012 £10,000) At 28 February 2013 Prohire plc owed the Group £3,600 (2012 £6,500) in respect of these supplies

William Teasdale, a Director of the Company also sits on the Board of Remedios Limited Remedios Limited provides environmental investigation services to the Group on normal commercial terms In the year ended 28 February 2013, the value of such services provided was £48,000 No amounts were unpaid at 28 February 2013 in respect of these services received

36. Post balance sheet events

On 13 May 2013 the Group announced that it had exchanged contracts for the sale of its Iveco heavy trucks business for a cash consideration of £1,500,000 plus £192,000 of redeemable preference shares in Aquila Truck Centres (Italia) Limited, the purchaser

On 21 May 2013 the Group announced that it had reached conditional agreement with Co-operative Group Limited to acquire the issued share capital of Albert Farnell Limited, which operates three Land Rover dealerships and a specialist used car outlet, for an estimated consideration of £31,000,000 to be funded from a placing of shares which is expected to raise £50,000,000 The transaction is subject to shareholder approval at a general meeting convened on 7 June 2013, and, subject to satisfying these conditions, is anticipated to complete immediately thereafter

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 2013 which comprise the Company Balance Sheet and 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 and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

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 2013,
- 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 2013

Ian Marsden (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
21 May 2013

Company Balance Sheet

As at 28 February 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Tangible assets	2	1,806	1,517
Investments	3	59,328	54,268
Loans to Group undertakings	4	3,000	-
		64,134	55,785
Current assets			
Debtors	5	54,968	53,540
Cash at bank and in hand		31,640	24,033
Total current assets		86,608	77,573
Creditors: amounts falling due within one year	7	(34,986)	(25,377)
Net current assets		51,622	52,196
Total assets less current liabilities		115,756	107,981
Creditors: amounts falling due after more than one year	8	(14,064)	(7,452)
Provisions for liabilities	10	(5,452)	(4,757)
Net assets		96,240	95,772
Capital and reserves			
Called up share capital	11	20,008	19,928
Share premium account	11	60,727	60,506
Shares to be issued	11	2,000	-
Other reserve	11	8,820	8,820
Hedging reserve	12	(133)	(159)
Profit and loss account	13	4,818	6,677
Total shareholders' funds	15	96,240	95,772

These financial statements, on pages 79 to 90, have been approved for issue by the Board of Directors on 21 May 2013

Robert Forrester
Chief Executive

Michael Sherwin
Finance Director

Notes to the Company Financial Statements

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

1 Accounting Policies

Basis of preparation

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

No profit and loss account is presented by the Company, as permitted under section 408 of the Companies Act 2006 The loss of the Company for the year ended 28 February 2013 was £662,000 (2012 profit of £3,348,000)

The consolidated financial statements include the results of all subsidiaries wholly owned by Vertu Motors plc as listed on page 84 of the annual report Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2013 by virtue of s479A of Companies Act 2006 Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2013 by virtue of s394A of Companies Act 2006 In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the parent company Vertu Motors plc has given a statutory guarantee of all the outstanding liabilities as at 28 February 2013 of the subsidiaries listed below, further detail of which is provided in note 33

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2013 by virtue of s479A Companies Act 2006 are

Boydslaw 103 Limited
Bristol Street Commercials (Italia) Limited
Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Compare Click Call Limited
Dobies (Carlisle) Limited
Dunfermline Autocentre Limited
Grantham Motor Company Limited
K C Mobility Solutions Limited
Macklin Property Ltd
Tyne Tees Finance Limited
Vertu Motors (AMC) Limited
Vertu Motors (Durham) Limited
Vertu Motors (Pity Me) Limited
Vertu Motors (Property) Limited
Widnes Car Centre (1994) Limited
Widnes Car Centre Limited

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2013 by virtue of s394A of Companies Act 2006 are

Blake Holdings Limited
Bristol Street (No 1) Limited
Bristol Street (No 2) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
BSH Pension Trustee Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
National Allparts Limited
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (Finance) Limited
Vertu Motors (Retail) Limited
Vertu Motors Third Limited

The auditors remuneration for audit and other services was £25,000 (2012 £25,000)

Notes to the Company Financial Statements (continued)

1 Accounting Policies (continued)

Tangible Fixed Assets

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

Computer equipment	16 6% - 50%
Office equipment	25%

Investments

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

Deferred Taxation

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

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

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold

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 The provisions recognised solely relate to vehicle warranty product liabilities

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured In practice this means that revenue is recognised when a service has been undertaken

Share based payments

The Company allows employees to acquire shares of the Company through share option schemes The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity The Company operates a number of equity-settled, share-based compensation plans The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets) Non-market

1. Accounting Policies (continued)

Notes to the Company Financial Statements (continued)

Share based payments (continued)

vesting conditions are included in assumptions about the number of options that are expected to vest At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity

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

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

Derivative financial instruments

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

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

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

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

Cash flow hedges

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

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

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

Notes to the Company Financial Statements (continued)

1. Accounting Policies (continued)

Leases

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

2. Tangible assets

	Computer Equipment £'000	Office Equipment £'000	Total £'000
Cost			
At 1 March 2012	3,164	245	3,409
Additions	926	70	996
At 28 February 2013	4,090	315	4,405
Accumulated Depreciation			
At 1 March 2012	1,758	134	1,892
Depreciation charge	660	47	707
At 28 February 2013	2,418	181	2,599
Net Book Value			
At 28 February 2013	1,672	134	1,806
At 29 February 2012	1,406	111	1,517

Notes to the Company Financial Statements (continued)

3 Fixed asset investments

	2013 £'000	2012 £'000
Cost and net book value		
At beginning of year	54,268	53,684
Additions	5,060	584
At end of year	59,328	54,268

Vertu Motors plc, the Company, as at 28 February 2013 and 29 February 2012, invested in 100% of the ordinary share capital of the following significant subsidiary undertakings, incorporated in the United Kingdom

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

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), were acquired in the year ending 28 February 2013

Company	Principal activity
Dobies (Carlisle) Limited*	Motor retailer**

3 Fixed asset investments (continued)

*Held indirectly by the Company

**On 7 January 2013 the trade and assets of this subsidiary were transferred to other wholly owned subsidiaries of the Group Thereafter this subsidiary will be a Dormant company

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

4 Loans to Group undertakings

	2013 £'000	2012 £'000
Loans to Group undertakings	3,000	-

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

5. Debtors

	2013 £'000	2012 £'000
Trade debtors	255	657
Amounts owed by Group undertakings	49,384	49,181
Deferred tax asset (note 6)	283	341
Value Added Tax	2,509	1,336
Prepayments and accrued income	2,537	2,025
	54,968	53,540

6. Deferred tax asset

	2013 £'000	2012 £'000
At beginning of year	341	(99)
(Charged) credited to the profit and loss account	(50)	368
(Charged) credited directly to equity	(8)	72
At end of year	283	341

The amounts recognised for deferred tax assets, calculated under the liability method at 23% are set out below

	2013 £'000	2012 £'000
Depreciation in excess of capital allowances	166	129
Other short term timing differences	117	212
Total	283	341

7. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Bank loans (note 8)	2,000	2,000
Trade creditors	6,305	1,987
Other creditors	12,500	12,000
Corporation tax	235	1,060
Deferred consideration	1,251	-
Other taxation and social security	2,282	2,096
Accruals and deferred income	10,413	6,234
	34,986	25,377

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

Notes to the Company Financial Statements (continued)

8 Creditors: amounts falling due after more than one year

	2013 £'000	2012 £'000
Bank borrowings	11,288	7,243
Deferred consideration	2,600	-
Derivative financial instruments (note 9)	176	209
	14,064	7,452

Borrowings are repayable as follows	2013 £'000	2012 £'000
Under 1 year	2,000	2,000
1-2 years	2,000	2,000
2-5 years	9,288	5,243
	13,288	9,243

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

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	2,000	11,288	13,288
Trade and other creditors	32,986	2,600	35,586
At 28 February 2013	34,986	13,888	48,874

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	2,000	7,243	9,243
Trade and other creditors	23,377	-	23,377
At 29 February 2012	25,377	7,243	32,620

9 Derivative financial instruments

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

	2013 Long term Liabilities £'000	2012 Long term Liabilities £'000
Interest rate swaps – cash flow hedges	176	209

The notional principle amounts of the outstanding interest rate swap contracts at 28 February 2013 were £7,500,000 (2012 £9,500,000)

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

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

Notes to the Company Financial Statements (continued)

10. Provisions for liabilities

Provisions for liabilities comprise

	2013 £'000	2012 £'000
Warranty provision	5,452	4,757
At end of year	5,452	4,757

The movements on provisions are

	2013 £'000	2012 £'000
At beginning of year	4,757	4,150
Charged to the profit and loss account (additional provisions)	5,324	4,594
Credited to the profit and loss account (unused amounts reversed)	(507)	(458)
Utilised during year	(4,122)	(3,529)
At end of year	5,452	4,757

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 reserves

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

	Ordinary shares Number of 10p ordinary Shares ('000)	Called up Share capital £'000	Share premium account £'000	Other reserve £'000	Total £'000
At 1 March 2011 and 29 February 2012	199,278	19,928	60,506	8,820	89,254

The total authorised number of ordinary shares is 270,000,000 shares with a par value of 10p per share All issued shares are fully paid-up

Notes to the Company Financial Statements (continued)

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

The other reserve is a merger reserve, arising from shares issued for shares, as deferred consideration, to the former shareholders of acquired businesses The shares to be issued reserve represents the contracted subscription of the shares set out in note 17 d) Business Combinations note of the consolidated financial statements Such subscription will complete, and the associated shares admitted to AIM by 30 June 2013

12 Hedging reserve

	2013 £'000	2012 £'000
Cash flow hedges:		
At beginning of year	(159)	59
Fair value gains (losses) on derivative financial instruments during the year	34	(290)
Deferred taxation on fair value gains (losses) during year	(8)	72
At end of year	(133)	(159)

13 Profit and loss account

	2013 £'000	2012 £'000
As at beginning of year	6,677	4,205
(Loss) profit for the year	(662)	3,348
Dividend paid (note 14)	(1,296)	(996)
Share based payments adjustment (note 16)	99	120
As at end of year	4,818	6,677

14. Dividends per share

The dividends paid in the year to 28 February 2013 were 0 65p per share in total (2012 0 5p) A final dividend in respect of the year ended 28 February 2013 of 0 45p per share, is to be proposed at the annual general meeting on 25 July 2013 The ex dividend date will be 26 June 2013 and the associated record date 28 June 2013 This dividend will be paid on 29 July 2013 and these financial statements do not reflect this final dividend payable

Notes to the Company Financial Statements (continued)

15. Reconciliation of movements in shareholders' funds

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

On 7 December 2012 the Company allotted 797,872 ordinary shares in connection with the Group's acquisition of the trade and certain assets of Springfield Cars Limited

	Called up Share capital £'000	Share premium account £'000	Other reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total £'000
As at 1 March 2011	19,928	60,506	8,820	59	4,205	93,518
Profit for the year	-	-	-	-	3,348	3,348
Dividend paid	-	-	-	-	(996)	(996)
Tax on items taken directly to equity	-	-	-	72	-	72
Fair value losses on derivative financial instruments	-	-	-	(290)	-	(290)
Share based payments charge	-	-	-	-	120	120
As at 29 February 2012	19,928	60,506	8,820	(159)	6,677	95,772

16. Share based payments

For details of share based payment awards and fair values, see note 30 to the consolidated financial statements The Company accounts include a share based payments charge for the year of £99,000 (2012 £120,000)

17 Contingencies

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

Notes to the Company Financial Statements (continued)

18 Directors' Remuneration

The remuneration of the Directors who served during the year from 1 March 2012 to 28 February 2013 is set out within note 9 to the consolidated financial statements

19 Commitments

Operating Lease Commitments

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

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

Commitments under non-cancellable operating leases expiring	2013 Vehicles £'000	2012 Vehicles £'000
No later than 1 year	140	72
Later than 1 year and no later than 2 years	179	241
	319	313

20. Related party transactions

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

21 Post balance sheet events

On 13 May 2013 the Group announced that it had exchanged contracts for the sale of its Iveco heavy trucks business for a cash consideration of £1,500,000 plus £192,000 of redeemable preference shares in Aquila Truck Centres (Italia) Limited, the purchaser

On 21 May 2013 the Group announced that it had reached conditional agreement with Co-operative Group Limited to acquire the issued share capital of Albert Farnell Limited, which operates three Land Rover dealerships and a specialist used car outlet, for an estimated consideration of £31,000,000 to be funded from a placing of shares which is expected to raise £50,000,000 The transaction is subject to shareholder approval at a general meeting convened on 7 June 2013, and, subject to satisfying these conditions, is anticipated to complete immediately thereafter

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