

Vertu Motors plc

Annual Report and Accounts

For the year ended 28 February 2009

Registered number 05984855

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Contents

Table of Contents	Page
Chairman's Report	2
Chief Executive's Review	4
Finance Director's Review	7
Main Board Directors	10
Advisers	11
Corporate and Social Responsibility Report	12
Directors' Report	15
Corporate Governance Report	19
Remuneration Report	24
Independent Auditors' Report (consolidated financial statements)	29
Consolidated Income Statement	31
Consolidated Statement of Recognised Income and Expense	32
Consolidated Balance Sheet	33
Consolidated Cash Flow Statement	34
Notes to the Consolidated Financial Statements	35
Independent Auditors' Report (Company financial statements)	67
Company Balance Sheet	69
Notes to the Company Financial Statements	70

Financial Diary

Annual General Meeting	23 July 2009
Interim Results 2009/10	October 2009
Final Results 2009/10	May 2010

Chairman's Report

Since flotation in December 2006, the Group has established itself as a major player in the United Kingdom automotive retail sector. The Group is now the 9th largest motor retailer by turnover and operates 41 franchised and 4 non-franchised operations across England.

The Board has had a consistent strategy since flotation and this remains totally relevant for today's economic environment. This strategy is to grow a scaled volume dealership group driving performance improvements through the implementation of consistent business processes and systems. The recruitment, development and retention of high performing motor retail professionals is of paramount importance and the Board has developed its business model to ensure the culture of the Group is entrepreneurial and consistent with the encouragement of top performers. The Group's business strategy includes the development of internet and fleet channels as well as ensuring strong financial controls are in place to control costs and maximise cash generation. This strategy has led to the Group outperforming the market over the past two years since its first acquisition.

Our objective has been to enhance the experiences of our customers and, in turn, secure significant gains in market share. This has allowed the Group to deliver substantial benefits from our operational gearing and these benefits will accelerate as the United Kingdom economy improves over time.

Having successfully integrated the acquisitions undertaken in the past two years, the Board believes that the market conditions are right to support another period of expansion, again targeting volume franchises. A small number of new volume franchises are likely to be added to strengthen the Group's portfolio balance. Expansion will predominantly take place in geographical areas where the Group already operates, in order to gain the benefits accruing from regional concentrations.

The Board is committed to building a sustainable, scalable business to deliver shareholder value.

Financial Commentary

Revenue in the period increased to £760.8m (16 months ended 29 February 2008 : £677.2m) reflecting the full year impact of acquisitions made in the preceding period.

Adjusted EBITDA rose in the period to £7.9m, compared to £5.1m in the 16 months ended 29 February 2008. Despite challenging market conditions in the period, such as a falling new car market and an unprecedented fall in used vehicle values, adjusted EBITDA was the same as the prior period on a pro-forma basis. The Group was able to absorb the impact of these factors through obtaining enhanced performances from previously underperforming businesses, in line with the Group's strategy. EBITDA and profit before tax were £4.6m (16 months ended 29 February 2008: £3.5m) and £0.07m (16 months ended 29 February 2008: £0.14m) respectively. Exceptional costs of £3.4m were incurred in the period.

The Group has continued to focus on working capital management in the period and generated £21.2m of operating cashflow after the impact of exceptional cash costs of £1.5m. Working capital was reduced by £16.8m in the period, primarily due to a reduction in stock levels and more advantageous payment terms from finance company and manufacturer partners. Consequently, the Group has reduced gearing from 28.1% to 6.0%. Net debt at 28 February 2009 totalled £3.4m and was coupled with early repayment of Group borrowings. It is important to note that the Group funds its working capital through its bank facilities and, in particular, does not utilise interest bearing stocking facilities to fund its used cars.

Current Trading and Outlook

March is the most important month for profitability in the UK motor retail sector and March 2009 was expected to be the hardest for many years as the UK economy hit a low point. New car registrations to private buyers were indeed weak, with a year on year fall of 28.6%. Against this backdrop, Vertu continued to gain market share as it has done consistently since flotation. Volumes were down 18.6% on a like-for-like basis, significantly ahead of the market. Importantly, all manufacturer targets were achieved at a high level and bonuses were earned in the period without recourse to any pre-registration activity.

Chairman's Report (continued)

Current Trading and Outlook (continued)

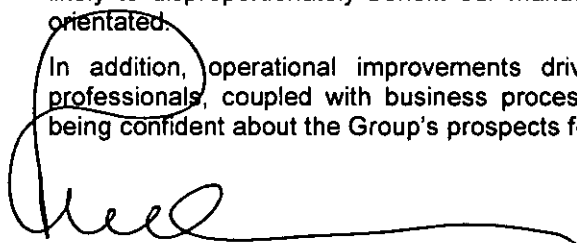
The new commercial vehicle market remains more depressed than the car market. Activity levels in our Ford Commercial and Iveco operations are below our expectations as a consequence.

Used car sales and margins were robust in March with like-for-like volumes rising by 18.0%. Used car prices and margins rose significantly since the start of 2009 and this trend continued throughout March and April. This trend was driven by reduced supply of used cars due to the weakness of the new private and fleet car market and strong consumer demand reflecting the value proposition of used cars, the prices of which have fallen significantly in the last twelve months. Used cars have consequently generated profit ahead of expectations in March and April.

The Group's after-sales operations continue to perform at a high level and in line with our expectations. Overall, the Board is pleased to report that the Group's profitability in March and April has been ahead of the Directors' expectations.

The Board's view is that, as a consequence of a weak economic backdrop, market conditions in the current year will remain challenging. This is expected to particularly impact the area of new car sales, whilst used cars and after-sales are likely to be more robust. Exchange rates continue to exert pressure on manufacturer margins and this is leading to regular new car price rises. Offsetting these factors, the Group sees itself as a potential major beneficiary of the new vehicle discount scheme ("scrappage scheme") announced by the Government on 22 April. This was formally launched in mid May and initial consumer interest has been strong. Such a scheme is likely to disproportionately benefit our manufacturer partners, which are volume and small car orientated.

In addition, operational improvements driven by securing high performance motor retail professionals, coupled with business process and system enhancements, result in the Board being confident about the Group's prospects for the current financial year.



P R Williams
Non-Executive Chairman
28 May 2009

Chief Executive's Review

Strategy

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

Portfolio Development

Early in the financial year, the Board took the view that, in the face of challenging market conditions, the priority was to secure operational benefits from the existing portfolio and to reduce the Group's borrowing levels, all of which were achieved during the year. Therefore, the year was marked by little acquisition activity.

A review of operating locations led to a marginal non-franchised used van sales outlet in Birmingham being closed in August 2008, in order to reduce fixed operating costs.

The Bristol Street Motor Nation used car outlet business saw considerable changes in the period. On 2 September 2008, the operation in Coventry was closed. This operation had been consistently unprofitable and the location was secondary. In contrast, new operations were started up in Doncaster in March 2008 and Darlington in March 2009. Both operations are situated in prime locations and performance, to date, of both new outlets has exceeded our expectations. This reflects the Group's ongoing confidence in the Bristol Street Motor Nation format.

Subsequent to the year end, the Group has secured the Vauxhall franchise in Waltham Cross, Hertfordshire. This operation is located in a non-franchised outlet, currently operated by the Group, and will allow for an expansion of the outlet in terms of sales and profitability. This brings our number of Vauxhall franchised outlets to five.

The Group currently operates 41 franchised, 4 non-franchised sales operations and 2 stand alone service operations which are summarised below:

Dealerships held by the Group:	
Vehicle Franchises	
Ford	14
Peugeot	6
Vauxhall	5
Citroen	4
Honda	4
Renault	2
Hyundai	1
Commercial Vehicle Franchises	
Iveco	3
Fiat Commercial	1
Motorcycle Franchises	
Honda	1
Others	
Bristol Street Motor Nation Used Car Outlets	4
Stand Alone Service Centres	2

Operating Review

Operating Strategy

During the past twelve months, the automotive retail sector encountered the most challenging market conditions for many years. In particular, new car sales declined and used car values fell substantially from May 2008 until December 2008, placing pressure on margins. In response, the Group focused on generating operational improvements in its core activities. Four key strategies were implemented:

- The Board accelerated the ongoing cost review programme, to minimise the operational cost base. This included the closures referred to above and additional payroll savings from headcount reductions in continuing dealerships totalling £1.8m on an annualised basis. In addition, a "War on Waste" campaign has been implemented to focus on reducing all non-payroll costs, such as in the areas of energy usage, consumables and other discretionary spending.

Chief Executive's Review (continued)

Operating Review (continued)

Operating Strategy (continued)

- Process and system improvements have been implemented, particularly in the areas of sales process and stock management. These initiatives have been supported by the introduction of training programmes for all colleagues in order to ensure the delivery of customer service excellence and efficient processes. Investment has also been made in management development training to support a culture of momentum and maximisation. This is aided by having performance management in place across the Group and the implementation of a uniform management information platform to deliver key KPI information to the desktop of each manager on a real time basis.

- In the face of a decline in used vehicle values, focus was given to improve stock turn through:

- i. reducing overall used car stock levels
- ii. ensuring stock mix was appropriate for the market place
- iii. setting sales strategies to generate like-for-like used car volume growth.

- A number of the Group's dealerships have historically underperformed and a key driver to maintaining Group profitability is the turnaround of the financial performance of these dealerships. Focus has been given to the recruitment of high performance motor retail professionals to lead the transformation of these businesses through their expertise and drive.

The Board believes that the adoption of these strategies has enabled the Group to outperform the market significantly during the period.

Dealership Operations

Despite the economic environment, the Group witnessed outperformance in its franchised operations in the period in terms of both market share gains and a robust trading performance.

New retail vehicle volumes declined 2.4% in the year on a like-for-like basis. This compared to a market decline in the year of 16.1% in UK private new car registrations.

This outperformance can be partly attributable to the market shift away from specialist franchises to volume franchises and towards smaller, fuel efficient vehicles. This is linked to consumer trends to save money, as finances come under pressure, and also reflects the excellent product quality now seen in the volume franchises. New vehicle launches, such as the Ford Fiesta and KA, Honda Jazz and Vauxhall Insignia, also contributed to the Group's positive momentum. Margins remained strong as a consequence of the Group's performance against manufacturer targets, which resulted in high levels of bonus earnings.

Fleet new vehicle sales represent 34% of total Group turnover and are a significant element of the Group's operations. Sales include car and commercial vehicles and the latter have been under significant pressure as economic conditions tightened. Whilst UK new car registrations to the fleet sector declined by 10.5% in the year, light commercial vehicle registrations fell by 20.1%. Overall, the Group saw a 5.5% fall in fleet and commercial new vehicle sales in the year and this represented an overachievement against the market.

This significant market decline in the commercial vehicle sector has impacted the Group due to its strong market presence in Ford and Iveco. Stocks of new vehicles on consignment terms have increased over the period. Such ageing new vehicle stocks are subject to interest charges from manufacturers and these trends resulted in stocking charges increasing from £0.1m in the sixteen months ended 29 February 2008 to £0.6m in the year ended 28 February 2009. The increase in the charge was also exacerbated by higher interest rates charged by the manufacturers connected to dislocation in the wholesale money markets. The stock position is expected to reverse during the next six months, as manufacturers' actions bring production in line with sales levels and corporate customers also resume their buying activity. The Group has also seen the interest rates charged by manufacturers decline in 2009.

On a like-for-like basis, the Group's used car sales volumes grew by 10.5% in the year, having grown by 18.1% in the previous trading period.

Chief Executive's Review (continued)

Operating Review (continued)

Dealership Operations (continued)

This reflects the Group's focus on developing a vibrant used car business to reduce the overall sensitivity to new car sales, which are more directly linked to economic fluctuations, and to maximise operational gearing benefits at each dealership. Margins were under significant pressure from May 2008 as a result of monthly used car value falls of up to 5%, which continued until December 2008. The Group's used car trading performance was affected by both reduced trading margins and the need for additional stock provisions, since the Group has a prudent policy of writing used vehicle stocks down to trade values each month. Lower part exchange values also increased the cost to change for consumers and this provided an element of downward pressure on sales growth. These trends reversed from January 2009, with the industry witnessing rising used car prices as noted above.

In our interim announcement, the Group reported a tightening in the availability of consumer finance to used car customers, particularly those with weaker credit scores. This situation has considerably improved in the area of prime finance, with lower rejection rates being experienced. Potential for sales outside of the prime finance market remain limited.

The internet is an increasingly important driver of vehicle sales in the United Kingdom and the Group has invested in developing a strong internet presence and a dedicated, centralised sales function. These developments have contributed to the outperformance in like-for-like sales outlined above. For example, in March 2009, internet sales rose 57% on March 2008 levels.

After-sales activities are generally more robust in periods of economic decline, as customers keep their cars for longer periods and service costs rise. The Group generated 47% of its gross profit from after-sales operations in the period and profitability rose, period on period, in both the service and parts sectors on a pro-forma basis. This profitability increase has been aided by the Group's cost reduction programme, marketing initiatives and campaigns, and the development of outbound call centres.



Robert Forrester
Chief Executive
28 May 2009

Finance Director's Review

Profit and Loss

Revenue in the period increased by £83.6m from £677.2m in the 16 months ended 29 February 2008 to £760.8m in the year ended 28 February 2009. The prior period reflected trading from 27 March 2007, when the Group acquired Bristol Street Motors. The increase in revenue reflects £103.7m in respect of the full period impact of acquisitions, together with a £4.8m increase in relation to the net impact of new dealerships opened and dealership closures. Like-for-like sales reduced by £24.9m as a consequence of new vehicle volumes falling and increased used car volumes being more than offset by the reduction in used car prices.

Gross profit margins rose in the year from 11.5% to 11.7%. The table below highlights the composition of revenue and gross margin percentages:

	Year ended 28 February 2009		16 months ended 29 February 2008*	
	Revenue %	Gross Margin %	Revenue %	Gross Margin %
New car retail	22	8.2	21	7.8
New fleet and commercial	34	2.9	30	3.1
Used cars	32	9.1	29	10.0
After-sales	12	40.8	20	40.9
	100	11.7	100	11.5

(* The Group began trading on 27 March 2007 on the acquisition of Bristol Street Group Limited).

Margins in new car retail sales rose as a result of 2009 including the key plate change month of March, which was not included in the prior period. Quarterly bonuses are recognised in this month, whereas in the 16 month period to 29 February 2008, March trading activity was prior to the completion of the acquisition of Bristol Street Motors. Margins remained strong in the period, despite falling volumes, as manufacturers' targets were exceeded and bonus income earned.

Fleet and commercial volumes comprised 34% of revenue in the year ended 28 February 2009. This increased on the prior period due to the inclusion of March and also a lower decline in volume compared to retail sales. Margins were under pressure in the period, as a result of the impact of new vehicle oversupply.

Used vehicle sales grew as a percentage of Group revenue as a result of like-for-like volume

growth. As highlighted above, significant declines in used vehicle values reduced margin from 10.0% in the 16 month period ended 29 February 2008 to 9.1% in the year ended 28 February 2009. Trading margins declined until December 2008 and additional provisions against stock were required.

After-sales revenue formed a lower percentage of overall Group revenue due to the impact of including the high vehicle sales month of March and the growth of used cars. Margins were stable in the period at over 40%. Overall, after-sales contributed 47% of Group gross profit in the period.

The Group generated an operating profit before amortisation, share based payment credit/charge and exceptional costs of £5.5m (16 months ended 29 February 2008: £3.1m). This performance was ahead of market expectations and reflects the resilience of our operating businesses. Operating profit rose from £1.4m to £2.1m. Exceptional costs were incurred in the period of £3.4m (16 months ended 29 February 2008: £1.4m).

The Board responded to the deteriorating market conditions by taking swift action to further reduce the Group's cost base. A programme of headcount reductions was undertaken, which gave rise to one off exceptional costs of £0.6m in the financial year. As a result of this programme, the future operating costs of the Group reduced by £1.8m on an annualised basis. The Group also incurred exceptional costs of £0.5m in respect of the closure of two historically underperforming business operations.

The Board has evaluated the carrying value of the four surplus freehold properties held for resale. Due to the continuing delay in realising these assets and trends in the commercial property market, a £1.1m provision has been made and the charge classified as an exceptional cost. Progress continues to be made on planning issues to aid the disposal process and, significantly, planning has been obtained for the site in Newcastle upon Tyne. The exact timing of the disposal of these assets remains uncertain.

Finance Director's Review (continued)

Profit and Loss (continued)

Further exceptional costs totalling £1.2m were incurred in relation to property. This included £0.4m of environmental remediation costs on the redevelopment of Oxford Peugeot. The remainder relates to demolition costs of empty premises to avoid business rates and further provision for rates, rent and other costs in relation to empty properties.

Net finance costs were £2.0m for the year (16 months ended 29 February 2008: £1.2m). The increase in net finance costs predominantly relate to £0.5m of increased manufacturer stocking charges discussed above and additional interest costs of £0.2m in relation to pension scheme assets. In order to manage its exposure to interest rate fluctuations, the Group utilises interest rate swaps. From April 2009, £15m of interest rate swaps were in place, which fix debt costs at 5.5% until 2012. A substantial fall in LIBOR in the period led to a £0.7m reduction in net assets as the Group recognised the fair value of these swaps at the year end in the statement of recognised income and expense. At current LIBOR levels, cash interest charges are expected to be £0.3m higher per annum as a consequence of the swaps in place.

Taxation

The Group tax credit was £0.8m (16 months ended 29 February 2008: charge £0.1m) in the period. During the year, the Group undertook a major review of capital allowances claimed on the Group's substantial property portfolio and resolved a number of outstanding enquiries with HMRC. As a consequence, a £0.8m credit has been recognised in respect of adjustments relating to prior years. The underlying effective tax rate of the Group going forward is expected to be 28%.

Financial Position

The Group has a strong balance sheet position with shareholders' funds of £57.2m (29 February 2008: £60.2m), representing net assets per share of 62p. The balance sheet is underpinned by a freehold and long leasehold property portfolio (including properties held for resale) of £53.3m (29 February 2008: £51.5m).

The capital structure of the Group comprises shareholders' equity funds, bank loans and overdrafts. The Group does not utilise interest bearing stocking facilities to fund its used cars and funds all its working capital requirements through its banking facilities. As at 28 February

2009, the Group had drawn down loans of £16.4m (29 February 2008: £24.4m). The reduction in loans in the year arose due to £1.0m of scheduled term loan instalment repayments and £7.0m of repayment of debt ahead of schedule. The latter was in line with the Group's objective to reduce borrowing. In addition, outstanding loan notes of £2.1m were also paid to the vendors of Bristol Street Motors pursuant to the Sale and Purchase Agreement dated 27 February 2007.

Subsequent to the year end, a further £2.0m of additional debt repayment has been made and, as a consequence, the Group now has drawn down loans of £14.4m on which interest is payable at 1% above LIBOR. These loans are repayable in March 2012 or through the application of proceeds from the disposal of the four surplus properties. During the period, the Group complied with all of the financial covenants in respect of these borrowings.

In addition to loan facilities, the Group has £20.0m of overdraft and other money market facilities on which it pays interest at 2.25% above base rate and 2% above LIBOR respectively. The facilities are available until the next review date of 1 September 2010. The Group operated with substantial cash balances for much of the year and these additional facilities are utilised to fund peak working capital requirements following plate change months. As at 28 February 2009, the Group had cash balances of £12.9m (29 February 2008: £9.5m) and as a consequence net debt fell to £3.4m at 28 February 2009 (28 February 2008: £16.9m).

Cash Flows

The Group's net cash inflow from operating activities was £21.2m (16 months ended 29 February 2008: £21.9m), after deduction of cash outflows in respect of exceptional costs of £1.5m. The Group reduced its investment in working capital by £16.8m in the period. Working capital reductions arose due to lower used vehicle and demonstrator stock levels (£7.2m), more advantageous payment terms from finance company partners (£5.0m) and increased manufacturer interest free deferred payment terms for used vehicles (£4.2m).

Finance Director's Review (continued)

Cash Flows (continued)

Capital expenditure of £5.0m arose in the period. Of total capital expenditure, £3.7m related to property refurbishments and developments. During the period the Group rebuilt the Oxford Peugeot dealership, constructed a new showroom at Kings Norton Ford and refurbished the Ford dealership in Bristol Street, Birmingham. As a result, the Group significantly enhanced these retail environments. It is expected that ongoing capital expenditure will be reduced in 2009/10.

Pensions

During the year, and in line with the funding programme agreed with the Trustees in 2007, the Group made cash contributions to the Bristol Street defined benefit pension scheme of £1.0m. This scheme is closed to future membership and accrual. In the period, net assets have been reduced by £3.0m as a result of actuarial losses on retirement benefit obligations, net of related taxation. These losses arose due to changes in actuarial assumptions in regard to bond yields and the long-term outlook for inflation. The Board continues to look at its options with respect to this scheme to reduce both its costs and exposure to volatility.



Karen Anderson
Finance Director
28 May 2009

Main Board Directors

The Board currently comprises the Directors outlined below.

Paul Williams – Non-Executive Chairman

Paul (62) was Chief Executive of Bristol Street Group Limited until its acquisition by Vertu Motors plc. Paul has over thirty years of retail experience and is well respected in the motor retail sector. This is reflected in his role as a director of the Retail Motor Industry Federation (RMIF) and as Chairman of the National Franchised Dealer Association (NFDA).

William Teasdale – Non-Executive Director

Bill (66) is a non-executive director of a number of private companies including British Engines Limited, Astrum Limited, Bedmax Limited in addition to being a Governor of Northumbria University. He was non-executive Director and Chairman of the Audit Committee at Reg Vardy plc between 2002 and 2006. Prior to this he was the Senior Partner at the Newcastle upon Tyne office of PricewaterhouseCoopers LLP. Bill has substantial experience of corporate transactions within the quoted company environment.

Robert Forrester – Chief Executive

Robert (39) was a director of Reg Vardy plc between 2001 and 2006, appointed as Finance Director in 2001 and Managing Director in 2005, until the sale of the business to Pendragon plc in 2006. During this time Reg Vardy plc moved from 65 to 100 car dealerships and provided a significant return to shareholders from the sale of the business in February 2006. Prior to this he was a director of Brookhouse Group Limited, a substantial private property investment company in the North West of England, where he was responsible for development, investment and financing of the portfolio. Robert qualified as a chartered accountant with Arthur Andersen. He is also a member of the Economic Affairs Committee of the Confederation of British Industry.

Karen Anderson – Finance Director

Karen (37) was Group Financial Controller of Reg Vardy plc prior to its acquisition in February 2006 by Pendragon plc. Karen worked for Pendragon plc from February 2006 to September 2006 and was heavily involved in the implementation of a new financial management structure for the enlarged Group. Karen trained as a chartered accountant with Arthur Andersen.

Advisers

Nominated Adviser and Broker

Brewin Dolphin Securities Limited
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Gallowgate
Newcastle upon Tyne
NE1 4SR

Broker

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Liverpool
L3 9AG

Solicitors

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

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
89 Sandyford Road
Newcastle upon Tyne
NE1 8HW

Tax Advisers

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Gainsborough House
34-40 Grey Street
Newcastle upon Tyne
NE1 6AE

Registrars

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The Registry
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Beckenham
Kent
BR3 4TU

Financial PR Advisers

Financial Dynamics
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London
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Company Secretary and Registered Office

Andrew Davison LLB
Rotterdam House
116 Quayside
Newcastle upon Tyne
NE1 3DY

Corporate and Social Responsibility Report

Introduction

Vertu Motors plc is conscious of the importance of Corporate Social Responsibility ("CSR") although the environmental impact of the core automotive business is comparatively low. The Group believes sound CSR policies and practices are fundamental to long-term business success. This belief is demonstrated in many ways including the way the businesses are operated and the support that is provided to local communities.

CSR Overview

Health and Safety and Environment

The Group affords a high degree of autonomy to local managers, allowing them to serve local markets in the most appropriate manner. There are, however, certain aspects of the business that require conformity and consistency of approach. Health and Safety and Environmental practices are examples of these and for which the Board has set down a number of principles and policies with which all businesses are required to comply.

The Health and Safety principles require all colleagues to comply with its Health and Safety Policy and the procedures detailed within it at all times to ensure compliance with applicable laws and regulations. These principles are applied within the businesses in many ways including:

- Clear lines of responsibility established and communicated
- On-line Health and Safety systems implemented at all locations designed to guide, monitor and support the businesses through information provision, checklists and audit programmes, plant inspection records and accident reporting
- A comprehensive training programme for all Directors, General Managers, Line Managers and Health and Safety Co-ordinators completed.

The principles relating to the Environment cover the integration of environmental management into business operations and a commitment to care and protect the environment by avoiding contamination of air, water and soil while preserving the quality of life which can be spoiled by nuisance from noise, vibration and visual encroachment.

The Group has adopted, where practicable environmental management systems and it continues to strive for continual improvement. The Health, Safety and Environmental principles are applied within the Group's businesses in many ways and the following examples are representative:

Acquisitions

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

Corporate and Social Responsibility Report (continued)

Environmental Management

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

- Substances that may be hazardous to health are logged and recorded on sites together with written assessments of precautions necessary while in use
- Waste from sites is disposed by authorised carriers in accordance with the Environmental Protection Act 1990
- Water based paints are used
- Paint Spray booths are examined and serviced annually and Interceptor filtration systems are provided to all vehicle wash facilities
- Sourcing policies to seek to positively promote suppliers who provide environmentally positive solutions.

Energy Management

The Group is committed to reducing energy costs by eliminating unnecessary consumption of energy. The Group has completed the installation of intelligent digital metering across the majority of its gas and electricity supplies to assist in the maintaining and management of our energy reduction programme. The Group is seeking to reduce energy consumption from continuing operations by 10% year on year, and will invest in other intelligent solutions to assist in this goal.

Colleagues

The Company seeks to fulfil the career aspirations and potential of all colleagues. We want every colleague to enjoy coming to work, feel motivated in everything that they do and to take pride in their contributions to the Group. As the Group expands, the enthusiasm and dedication of our people is a vital factor in the Group's success.

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.

- **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.

Corporate and Social Responsibility Report (continued)

Employment Policies

The Company'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:

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

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

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

Sharing our Success

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

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

Communication

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

Whilst individual achievement is always recognised, good teamwork is at the core of how we operate our business. At the heart of this is good communication. Every colleague has a stake in the business and we want everyone to feel that their voice can be heard. The Company utilises many formal and informal channels to achieve this, for example, a Group wide intranet site was launched in July 2008 to facilitate such communication.

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 2009.

Principal Activity

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 a description of the principal risks and uncertainties, details of acquisitions and likely future developments. It remains your Board's intention to deliver shareholder value and develop the Group through strategic acquisitions supplemented by the focused organic growth of its existing businesses.

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

Principal Risks and Uncertainties

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

Economic Conditions

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

Vehicle Manufacturer Dependency

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

Used Vehicle Prices

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

Reliance on Certain Key Members of Staff and Management

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

Liquidity and Financing Risk

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

Reliance on the Use of Estimates

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

Directors' Report (continued)

Principal Risks and Uncertainties (continued)

Legislative Changes to Vehicle Distribution

The current Motor Vehicle Block Exemption Regulations expire in 2010. These regulations permit the suspension of the usual competition rules in respect of motor vehicle distribution and repair in recognition of the relatively high value and complexity of motor vehicles. It is not yet clear whether the current regulations will be renewed on expiry in 2010. The final position is unlikely to be known until late in 2009.

Results and Dividends

The results for the year are set out in the consolidated income statement on page 31. The Group's profit on ordinary activities after taxation for the year was £857,000 (sixteen months ended 29 February 2008: £72,000).

The directors do not propose a dividend for this financial year (sixteen months ended 29 February 2008: £Nil).

Share Capital

On 28 May 2009, 91,982,478 Ordinary shares of 10 pence each were in issue, fully paid up and quoted on the Alternative Investment Market of the London Stock Exchange.

Directors and Their Interests

Brief particulars of the Directors are listed on page 10. 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 2009 and up to the date of signing the financial statements were:

P R Williams
R T Forrester
K Anderson
W M Teasdale

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

The Directors who held office at 28 February 2009 and their connected persons had interests in the issued share capital of the Company as at 28 February 2009 as follows:

	28 February 2009		29 February 2008	
	Ordinary Shares	Share Options	Ordinary Shares	Share Options
P R Williams	2,827,485	-	2,827,485	-
R T Forrester	4,070,120	-	3,866,120	-
K Anderson	551,290	196,809	546,290	186,809
W M Teasdale	500,000	-	500,000	-

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

R T Forrester, K Anderson and W M Teasdale who, together with their connected persons, control 5.6 per cent of the issued share capital of the Company, have undertaken to Brewin Dolphin not to (and to procure that their connected persons do not, as far as they are able) dispose of any Ordinary Shares for a period of three years from 23 December 2006 except in certain limited circumstances.

R T Forrester, K Anderson and W M Teasdale have further undertaken to Brewin Dolphin to ensure that any disposal made by them (or as far as they are able, their connected persons) of any Ordinary Shares for a period of two years from 23 December 2009 will be made in a manner designed to ensure that an orderly market can be maintained.

Directors' Report (continued)

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 retained profits and bank borrowings. To reduce the Group's exposure to movements in interest rates, the Group seeks to ensure that it has an appropriate balance between fixed and floating rate borrowings. The Group uses interest rate swaps and collars in order to manage its exposure to interest rate risk; all such arrangements are approved by the Board in line with its treasury policies. The Group applied hedge accounting under IAS 39 'Financial Instruments' in respect of its interest rate swap arrangements.

The Group has ensured continuity of funding by entering into a five year funding agreement with Barclays Bank on 26 February 2007, comprising a £10m term loan repayable over 5 years and a revolving credit facility. On 27 March 2009, the Group utilised surplus cash resources to repay the remaining £9m of the outstanding term loan. Short-term flexibility is achieved through the Group's overdraft and short term committed money market loan facilities.

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 exposure to foreign currency.

Charitable and Political Contributions

The Group's Corporate and Social Responsibility Report is set out on pages 12 to 14. The Group did not make any charitable or political contributions in the year (sixteen months ended 29 February 2008: £Nil).

Events after the balance sheet date

See note 35 on page 66.

Colleagues

The policies of the Company on equal opportunities, including those of disabled colleagues and colleague involvement, are set out in the Corporate and Social Responsibility Report on pages 12 to 14.

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 relate to supplies provided by the vehicle manufacturers who have granted retail franchises to the Group. Under the terms of the franchise agreements, supplies of vehicles and parts are provided on predetermined credit arrangements to the Group and the supplier effects payments by application of a direct debit on the due date. The Group agrees with other major suppliers appropriate payment terms when agreeing the price and other terms of purchase.

Trade creditors of the Group for the year ended 28 February 2009 were equivalent to 53 days (sixteen months ended 29 February 2008: 55 days) purchases.

Independent auditors and disclosure of information to auditors

In the case of each persons who were Directors of the Group at the date when this report was approved:

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

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

Directors' Report (continued)

Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial period. 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). In preparing the Group financial statements, the Directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB).

The Group and parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- to select suitable accounting policies and then apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to state that the Group financial statements comply with IFRSs as adopted by the European Union, and with regard to the parent Company financial statements, that applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

By order of the Board



Andrew Davison
Company Secretary
28 May 2009

Corporate Governance Report

The Combined Code

As an AIM quoted Company, Vertu Motors plc does not have to comply with the Combined Code on Corporate Governance (the 'Combined Code 2006') published by the Financial Reporting Council. However, the Board embraces the principles of good corporate governance.

The following statements describe how the relevant principles and provisions set out in Section 1 of the Combined Code (2006) 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 four members comprising two executive Directors (R T Forrester and K Anderson) and two non-executive Directors (P R Williams and W M Teasdale). It is the Board's intention that, in the medium term, at least one half of the Board (excluding the Chairman) should comprise independent non-executive Directors. After carefully reviewing the guidance in the Combined Code, the Board believes P R Williams and W M Teasdale 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 four operational directors meets regularly to consider the day to day commercial aspects of the business and reports to the Board.

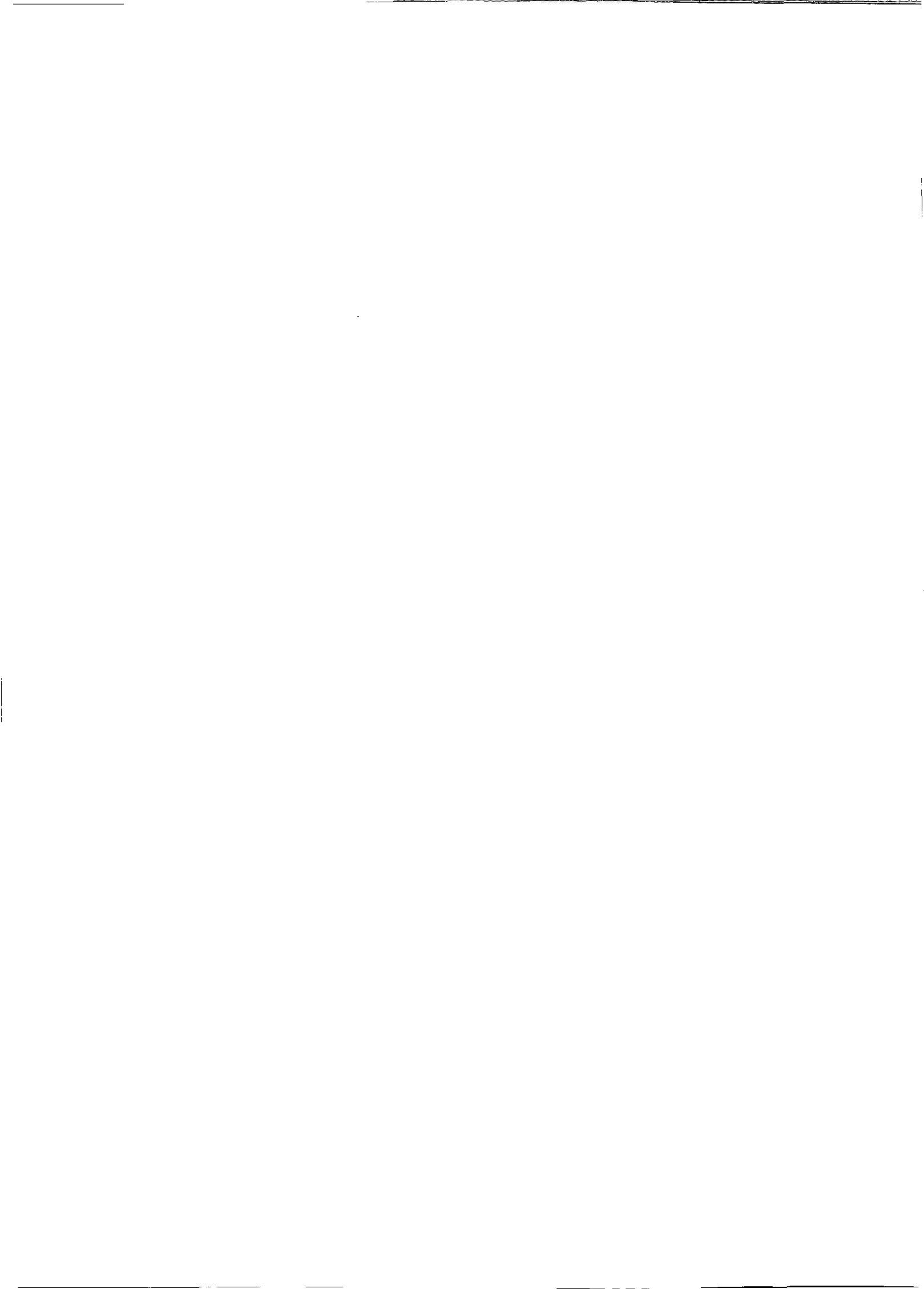
During the financial year the Board met 11 times in person and on other occasions by telephone. The number of meetings attended by each director was as follows:

	Main Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings held	11	2	1	-
P R Williams	11	-	1	-
R T Forrester	11	-	-	-
K Anderson	7*	1	-	-
W M Teasdale	10	2	1	-

* absence due to maternity leave

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

All Directors appointed by the Board must retire and seek election at the first Annual General Meeting following their appointment. All the present Directors retired and were elected at the Company's first AGM in 2007. One third of the 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 K Anderson are to retire and submit themselves for re-election by rotation at the 2009 Annual General Meeting.



Corporate Governance Report (continued)

Board of Directors (continued)

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

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

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

The Audit Committee

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

The Remuneration Committee considers that inclusion of fluctuating emoluments, which include performance bonuses, is an important element of the Company's employment of executive Directors and senior managers. In recognition of the large proportion of remuneration attributable to performance bonuses, the pensionable salaries for executive Directors and senior managers is fixed at 110% of basic salary. The Combined Code 2006 recommends that, in general, bonuses should not be pensionable. However, the bonus element is regarded by the Committee as an important motivational and retention feature of emoluments.

Nominations Committee

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

Corporate Governance Report (continued)

Pension Trustees

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

Relations with Shareholders

The Company encourages two way communications with both institutional and private investors and responds quickly to all queries received orally or in writing. Institutional shareholders are regularly invited to visit the operations and a number have taken up this opportunity. The Chairman and 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 question. The Directors believe the Annual General Meeting is an important opportunity for communication with both institutional and private investors and invite questions from shareholders at the meeting. In accordance with the Combined Code, details of proxy voting on resolutions are available to shareholders during and after the Annual General Meeting.

Internal Controls

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

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

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

- **Board of Directors**

The Board meets regularly and reviews and evaluates the business risks. Remedial action is determined where appropriate.
- **Mission Statement and Values**

The Group has established a Mission Statement that clearly set 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.
- **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).

Corporate Governance Report (continued)

Internal Controls (continued)

- Chief Executive's Committee

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

- Policies and Procedures

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

- Financial Reporting

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

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

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

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

Going concern

In determining whether the Group is a going concern, the Directors have reviewed the Group's current financial position and have prepared detailed financial projections. These projections reflect the recent unprecedented downturn in economic conditions and the actions already taken to reduce the Group's cost base, manage working capital and drive operational improvements.

The projections also assume that: new car sales will continue to decline in 2009 and not begin to recover until the second half of 2010; the service and parts business will be more resilient to the downturn; lower UK interest rates will continue; manufacturer partners will remain in production and supply on normal terms of trade; and there will be no further significant downturn in the global economic environment.

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

Corporate Governance Report (continued)

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



Andrew Davison
Company Secretary
28 May 2009

Remuneration Report

The Board presents the Remuneration Report for the year ended 28 February 2009.

Remuneration Committee

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

General Remuneration Policy

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

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

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

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

a) Basic Salary

The basic salaries in place from 1 March 2008 to 28 February 2009 for the two executive Directors were £100,000 for the Chief Executive R T Forrester and £100,000 for Finance Director K Anderson. When assessing basic salaries for 2009/10, the Remuneration Committee have fully considered the comparative information available, the levels of pay elsewhere in the Group and the responsibilities of the Company's executive Directors, having regard to their respective roles. As such, the basic salary of R T Forrester has been increased to £150,000 for the financial year 2009/10 and the basic salary of K Anderson will remain unchanged.

b) Performance Related Bonus

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

Remuneration Report (continued)

General Remuneration Policy (continued)

b) Performance Related Bonus (continued)

R T Forrester and K Anderson are eligible for performance bonuses which reward achievement of financial performance measured by objectives set by the Remuneration Committee. The maximum amount of performance bonus that could have been earned for the year to 28 February 2009 was 150% of basic salary for R T Forrester and 75% of basic salary for K Anderson. For the 2009/10 financial year the maximum amount of performance bonus that can be earned is reduced to 83% of basic salary for R T Forrester and unchanged at 75% of basic salary for K Anderson. Targets for the purpose of bonus payments are based on consensus profit forecasts by leading analysts at the commencement of the financial year.

The Remuneration Committee considers carefully the basis for bonus payments to the Chief Executive for the 2008/9 year. The changes in market conditions necessitated a review of budgets during the course of the year and the committee took the view that the financial performance should be assessed at the end of the year and any bonus determined at that time. Accordingly, in March, it was confirmed that the bonus level for the Chief Executive should be 50% of basic salary. In arriving at this conclusion the committee took into account the Company's financial performance in its own right and also compared with other companies in the sector and concluded his performance had been exceptional in extremely challenging market conditions.

c) Share Option Schemes

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

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

In addition, the Company has sought to reward the performance of senior managers and executive Directors through the grant of Executive Share Options which have specific challenging performance criteria attached. Details of the performance criteria are set out on pages 26 to 27. In awarding share options the Remuneration Committee considers the performance of the Group and the individual colleague having taken representations from the executive Directors.

Service Contracts

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

a) Notice Periods

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

b) Termination Payments

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

Remuneration Report (continued)

Service Contracts (continued)

c) Mitigation Policy

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

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

Details of the Directors' service contracts are as follows:

Name	Date of Contract	Term	Notice Period
P R Williams	26 February 2007	Up to 9 years	Renewed on re-election every 3 years
R T Forrester	6 November 2006	Rolling	Rolling
K Anderson	9 January 2007	Rolling	Rolling
W M Teasdale	6 November 2006	Up to 9 years	Renewed on re-election every 3 years

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

Pensions

R T Forrester and K Anderson 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 27.

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 option schemes are operated by the Company:

(a) Share Incentive Plan ("SIP")

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

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

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

Options granted prior to March 2007

Options granted may only be exercised if the market value of a share in Vertu Motors plc has increased by more than 50% from the market value at the date of grant. If the market value of a share has increased by between 50% and 100% then the percentage increase will represent the proportion of total options granted which are exercisable.

Remuneration Report (continued)

Policy on Performance Criteria (continued)

Options granted since 27 March 2007

Options under this Scheme may only be exercised if Earnings Per Share ("EPS") growth is greater than 15% above the increase in Retail Prices Index ("RPI") over a 3 year performance year taking a base EPS of 2.9p per share at 31 December 2006 per the report and accounts of Bristol Street Group Limited. If EPS 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 28 February 2010.

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

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

Options under this Scheme may only be exercised if EPS growth is greater than 15% above the increase in RPI over a 3 year performance year. If EPS 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 three years from the date of grant.

Remuneration

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

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

The remuneration of the Directors who served during the period from 1 November 2006 to 29 February 2008 is as follows:

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	108	-	10	150	268
K Anderson	103	-	18	125	246
P R Williams	-	67	-	-	67
W M Teasdale	-	42	-	-	42
	211	109	28	275	623

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

Directors' Pension Entitlements

The Company has paid £17,000 (sixteen months ended 29 February 2008: £13,000) in contributions to the defined contribution "Bristol Street Senior Executives Pension Plan" during this financial year in respect of R T Forrester and £17,000 (sixteen months ended 29 February 2008: £12,000) in respect of K Anderson.

Remuneration Report (continued)

Directors' Share Incentives

The following options have been granted to a Director over the Ordinary share capital of the Company and remain outstanding:

	Date of Grant	Exercise Price (Pence)	Exercisable from	Expiry date	Number of share options
K Anderson	1 March 2007	75	1 March 2010	1 March 2017	120,000
	27 March 2007	75	27 March 2010	27 March 2017	13,333
	27 March 2007	93.5	27 March 2010	27 March 2017	53,476
	21 May 2008	44	21 May 2011	21 May 2018	10,000

Only the 10,000 share options dated 21 May 2008 have been awarded during the financial year. No options were forfeited, exercised or lapsed during the year.

The share options dated 1 March 2007 and 27 March 2007 were granted under the EMI Approved and Unapproved share option scheme. The share options dated 21 May 2008 were granted under the CSOP Approved and Unapproved share option scheme.

The middle market price of the shares as at 28 February 2009 was 15p (29 February 2008: 41.5p) and the range during the financial year was 10p to 50p (period ended 29 February 2008: 31p to 101p).

Approval by Shareholders

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

By order of the Board



W M Teasdale
Chairman of the Remuneration Committee
28 May 2009

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 2009, which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These Group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company financial statements of Vertu Motors plc for the year ended 28 February 2009.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Report, Chief Executive's Review and Finance Director's Review, that is cross-referenced from the business review and future developments section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only Chairman's Report, the Chief Executive's Review, the Finance Director's Review, the Corporate and Social Responsibility Report, the Directors' Report, the Corporate Governance Report, the Remuneration Report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 28 February 2009 and of its profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
28 May 2009

Consolidated Income Statement

		Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Continuing operations			
Revenue		760,810	677,180
Cost of sales		(671,680)	(599,531)
Gross profit		89,130	77,649
Operating expenses	6	(83,617)	(74,573)
<hr/>			
Operating profit before amortisation, share based payments charge and exceptional costs		5,513	3,076
Amortisation of intangible assets		(183)	(116)
Share based payments credit (charge)		221	(221)
Exceptional costs	8	(3,441)	(1,360)
Operating profit		2,110	1,379
<hr/>			
Finance income	11	1,788	1,808
Finance costs	11	(3,830)	(3,050)
Net finance costs	11	(2,042)	(1,242)
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Profit before taxation		68	137
Taxation	12	789	(65)
<hr/>			
Profit for the period		857	72
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Attributable to:			
Equity holders of the Group		857	72
<hr/>			
Basic earnings per share (p)	13	0.93	0.09
Diluted earnings per share (p)	13	0.93	0.09

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

Consolidated Statement of Recognised Income and Expense

		Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Actuarial (losses) gains on retirement benefit obligations	27	(4,138)	2,948
Cash flow hedges	29	(981)	(452)
Taxation thereon	25	1,434	(699)
Net gains recognised directly in equity		(3,685)	1,797
Profit for the period		857	72
Total recognised income and expense for the period		(2,828)	1,869
Attributable to:			
Equity holders of the Group		(2,828)	1,869

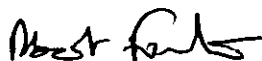
The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

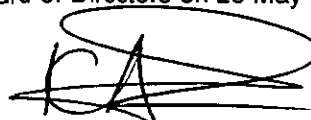
		28 February 2009 £'000	29 February 2008 £'000
Non-current assets			
Goodwill	14	18,612	18,612
Other intangible assets	15	1,043	962
Retirement benefit asset	27	130	3,117
Property, plant and equipment	16	49,813	47,446
		69,598	70,137
Current assets			
Inventories	18	155,698	131,579
Property assets held for sale	19	10,250	11,390
Trade and other receivables	20	19,791	14,102
Cash and cash equivalents	21	12,907	9,459
Total current assets		198,646	166,530
Total assets		268,244	236,667
Current liabilities			
Trade and other payables	22	(185,056)	(139,250)
Current tax liabilities		(2,370)	(3,328)
Borrowings	23	(2,000)	(3,119)
Total current liabilities		(189,426)	(145,697)
Non-current liabilities			
Borrowings	23	(14,336)	(23,261)
Derivative financial instruments	24	(1,434)	(452)
Deferred income tax liabilities	25	(4,416)	(5,875)
Deferred consideration		-	(128)
Provisions for other liabilities and charges	26	(1,433)	(1,029)
		(21,619)	(30,745)
Total liabilities		(211,045)	(176,442)
Net assets		57,199	60,225
Capital and reserves attributable to equity holders the Group			
Ordinary shares	28	9,198	9,194
Share premium	28	40,991	40,991
Other reserve	28	7,969	7,950
Hedging reserve	29	(1,032)	(326)
Retained earnings	30	73	2,416
Total equity	30	57,199	60,225

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

These financial statements have been approved for issue by the Board of Directors on 28 May 2009:



Robert Forrester
Chief Executive



Karen Anderson
Finance Director

Consolidated Cash Flow Statement

		Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Operating profit	Note	2,110	1,379
Loss on disposal of property, plant and equipment	6	14	69
Amortisation of intangible assets	15	183	116
Depreciation of property, plant and equipment	16	2,344	2,018
Decrease in inventories		8,650	5,792
(Increase) decrease in trade and other receivables		(7,115)	33,710
Decrease in assets held for resale		1,140	-
Increase (decrease) in payables		13,674	(21,870)
Increase in provisions		404	514
Movement in share based payments charge		(221)	221
Cash generated from operations		21,183	21,949
Tax received		173	-
Tax paid		(367)	(2,473)
Finance income received		211	212
Finance costs paid		(2,751)	(1,493)
Net cash generated from operating activities		18,449	18,195
Cash flows from investing activities			
Acquisition of businesses, net of cash, overdrafts and borrowings acquired		-	(77,882)
Proceeds from sale of tangible fixed assets		190	-
Purchases of intangible fixed assets	15	(156)	(544)
Purchases of property, plant and equipment		(4,916)	(4,654)
Net cash outflow from investing activities		(4,882)	(83,080)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		-	50,153
Proceeds from borrowings	31	-	24,191
Repayment of borrowings	31	(10,119)	-
Net cash inflow from financing activities		(10,119)	74,344
Net increase in cash and cash equivalents	31	3,448	9,459
Cash and cash equivalents at beginning of period		9,459	-
Cash and cash equivalents at end of period	21	12,907	9,459

The notes on pages 35 to 66 are an integral part of these consolidated financial statements.

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 Rotterdam House, 116 Quayside, Newcastle upon Tyne, NE1 3DY. The registered number of the Company is 05984855.

The consolidated financial statements have been prepared in accordance with the accounting policies described below and in accordance with EU endorsed International Financial Reporting Standards ("IFRS's") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and the Companies Act 1985 applicable to companies reporting under IFRS.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed in note 4.

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. These projections reflect the recent unprecedented downturn in economic conditions and the actions already taken to reduce the Group's cost base, manage working capital and drive operational improvements.

The projections also assume that: new car sales will continue to decline in 2009 and not begin to recover until the second half of 2010; the service and parts business will be more resilient to the downturn; lower UK interest rates will continue; manufacturer partners will remain in production and supply on normal terms of trade; and there will be no further significant downturn in the global economic environment.

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

Interpretations effective in the year ended 28 February 2009

- IFRS 7 – Financial instruments: disclosures. This amendment introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or disclosure relating to taxation and trade and other payables. These disclosures are reflected in the consolidated financial statements, including their impact on the comparatives.
- IAS 1 – Amendment – presentation of the financial statements: Capital disclosures. This amendment introduces new disclosures relating to capital requirements and management and does not have any impact on the financial position or performance of the Group. These disclosures are reflected in the consolidated financial statements, including their impact on the comparatives.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Interpretations effective in the year ended 28 February 2009 (continued)

- IFRIC 8 – Scope of IFRS 2. This interpretation requires consideration of transactions involving the issuance of equity instruments where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. The Group already applies an accounting policy which complies with the requirement of IFRIC 8.
- IFRS 4 (revised) - Insurance contracts. This has not resulted in a significant change to amounts recognised or disclosure.
- IFRIC 10 – Interim financial reporting and impairment. This has not resulted in a significant change to amounts recognised or disclosure.
- IFRIC 11 – Group and treasury share transactions. This has not resulted in a significant change to amounts recognised or disclosure.
- IFRIC 12 – Service concession arrangements. This has not resulted in a significant change to amounts recognised or disclosure.

Standards and interpretations not yet effective

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

- IFRS 3 (revised) – Business combinations (accounting periods beginning on or after 1 July 2009)
- IFRS 8 – Operating segments (accounting periods beginning on or after 1 January 2009)
- IAS 23 (revised) – Borrowing costs (accounting periods beginning on or after 1 January 2009)
- IFRIC 13 – Customer loyalty programmes (accounting periods beginning on or after 1 January 2009)
- IFRIC 14 – The limit on a defined benefit asset, minimum funding requirement and their interaction accounting periods beginning on or after 1 January 2009)
- IFRIC 15 – Agreements for the construction of real estate (accounting periods beginning on or after 1 January 2009)
- IFRIC 16 – Hedges of a net investment in a foreign operation (accounting periods beginning on or after 1 October 2008)
- IFRIC 17 – Distribution of non-cash assets to owners (accounting periods beginning on or after 1 July 2009)
- IFRIC 18 – Transfer of assets from customers (accounting periods beginning on or after 1 July 2009)
- IAS 1 (revised) – Presentation of financial statements (accounting periods beginning on or after 1 January 2009)
- IFRS 2 (revised) - Share based payments (accounting periods beginning on or after 1 January 2009)
- IAS 27 (revised) – Consolidated and separate financial statements (accounting periods beginning on or after 1 July 2009)
- IAS 28 (revised) – Interest and associates (accounting periods beginning on or after 1 July 2009)
- IAS 31 (revised) – Interests in joint ventures (accounting periods beginning on or after 1 July 2009)

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Standards and interpretations not yet effective (continued)

- IAS 32 (revised) – Financial instruments (presentation) (accounting periods beginning on or after 1 January 2009)
- IAS 39 (revised) – Financial instruments (recognition and measurement) (accounting periods beginning on or after 1 July 2009)

Additionally, the IASB published a large number of minor amendments to various standards as part of its annual improvement projects in May 2008. The Directors are currently reviewing the requirements of the above standards and interpretations to determine whether there will be a material impact on the Group's financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Vertu Motors plc and its subsidiary undertakings. Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50 per cent of the voting rights. Subsidiaries are consolidated from the date at which control is transferred to the Group and they are excluded from the consolidated financial statements from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Business combinations and goodwill

Business combinations are accounted for using the purchase method of accounting. This involves recognising identifiable assets (including intangible assets not previously recognised by the acquiree) and liabilities (including contingent liabilities) of acquired businesses at fair value. Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the consideration over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Where the net fair value of the acquired identifiable assets, liabilities and contingent liabilities exceeds the consideration, the excess or "negative goodwill" is recognised immediately in the income statement. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units.

Each cash generating unit ("CGU") or group of cash generating units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. Gains and losses on the disposal of a business component are calculated on a basis which incorporates the carrying amount of goodwill relating to the business sold.

Other intangible assets

Intangible assets, when acquired separately from a business combination, solely 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 three to four years.

Intangible assets, for example, customer relationships acquired as part of a business combination, are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. Such assets are amortised over their expected useful lives of twenty years.

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

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 period end. Land is not depreciated. Depreciation is provided at rates calculated to write off the cost of property, plant and equipment less their estimated residual values, on a straight-line basis over their estimated useful lives at the following rates:

Freehold and long leasehold buildings	2%
Short leasehold properties	Lease term
Vehicles and machinery	10%-25%
Furniture, fittings and equipment	10%-25%

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method (FIFO). 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.

Property assets held for sale

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

Trade payables

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

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Provisions

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

Impairment of financial assets

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

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

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

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

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

Taxation

Current tax

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

Deferred tax

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

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

Notes to the Consolidated Financial Statements (continued)

1. Accounting Policies (continued)

Taxation (continued)

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

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

- c. where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- d. in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profits will be available against which the temporary differences can be utilised.

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

Revenue

Revenue for the sale of goods and services is measured at the fair value of consideration receivable, net of rebates and any discounts. It excludes sales related taxes and intra Group transactions. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically despatched or when a service has been undertaken.

Pension costs

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

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

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 recognised in the balance sheet in respect of defined benefit pension plans 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 recognised income and expense (SORIE) in the period in which they arise.

The current service cost and gains and losses on settlements and curtailments are included in operating costs in the consolidated income statement. Past service costs are similarly included where benefits have vested otherwise they are amortised on a straight-line basis over the vesting period. The expected return on assets of funded defined benefit pension schemes and the imputed interest on pension plan liabilities comprise the pension element of the net finance cost or income in the income statement.

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 recognised income and expense in full for the period 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 period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

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

Cash and cash equivalents

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

Segmental reporting

A business segment is a group of assets and operations engaged in providing goods and services that is subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing goods and services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Exceptional costs

Exceptional costs comprise items of expenditure that are material in amount and unlikely to recur and therefore they merit separate disclosure in order to provide an understanding of the Group's underlying performance.

Notes to the Consolidated 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 income statement on a straight-line basis over the period of the lease.

Share capital

Ordinary shares are classed as equity.

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

Derivative financial instruments

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

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the rates prevailing at the balance sheet date.

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 24. Movements on the hedging reserve in shareholders' equity are shown in note 30. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Any trading derivatives are classified as a current asset or liability.

Cash flow hedges

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

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

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 'other gains and losses'. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is amortised to profit and loss over the period to maturity.

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management

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

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

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

The Group does not generally hold or issue derivative financial instruments for speculative purposes.

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 the UK pound.

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

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

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

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

At 28 February 2009, if interest rates on borrowings denominated in UK pound had been 0.5% higher with all variables held constant, post tax profit for the year would have been £70,000 (period ended 29 February 2008: £122,000) lower mainly as a result of a higher interest expense on floating rate borrowings. Post tax movement in equity would be £137,000 higher (period ended 29 February 2008: £68,000 lower) as a result of movements in cash flow hedges.

At 28 February 2009, if interest rates on borrowings denominated in UK pound had been 1.0% higher with all variables held constant, post tax profit for the year would have been £134,000 (period ended 29 February 2008: £245,000) lower mainly as a result of a higher interest expense on floating rate borrowings. Post tax movement in equity would be £248,000 higher (period ended 29 February 2008: £157,000 lower) as a result of movements in cash flow hedges.

Credit Risk

Credit risk is managed on a Group basis. Credit risk arises from cash and deposits with banks as well as credit exposures to customers. Individual customer risk limits are set based on external credit reference agency ratings and the utilisation of these credit limits is regularly monitored. Further disclosure on credit risk is given in note 20.

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

Notes to the Consolidated Financial Statements (continued)

2. Financial risk management (continued)

Liquidity Risk (continued)

financial assets and liabilities. Disclosed within note 23 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*	2,000	14,460	16,460
Derivative financial instruments	-	1,434	1,434
Trade and other payables	185,056	-	185,056
At 28 February 2009	187,056	15,894	202,950

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings*	1,000	23,460	24,460
Derivative financial instruments	-	452	452
Trade and other payables	139,250	-	139,250
At 29 February 2008	140,250	23,912	164,162

*The unamortised portion of loan arrangement fees is not included in the above table.

3. Capital risk management

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

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

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

The gearing ratios at 28 February 2009 and 29 February 2008 were as follows:

	28 February 2009 £'000	29 February 2008 £'000
Total borrowings (note 23)	16,336	26,380
Less: cash and cash equivalents (note 21)	(12,907)	(9,459)
Net debt	3,429	16,921
Shareholders' equity	57,199	60,225
Gearing ratio	6.0%	28.1%

Notes to the Consolidated Financial Statements (continued)

3. Capital risk management (continued)

Fair value estimation

Interest rate swaps contracts have been marked to market to produce fair value figures.

The carrying value less impairment provision of trade and receivables and payables are assumed to approximate their fair values. The fair value of long-term borrowings approximate to the carrying value reported in the balance sheet, as the majority are variable rate borrowings.

4. Critical accounting estimates and judgements

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

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated above and in note 14. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Income taxes

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

Share based payments

The share based payment expense is recognised in each period 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 28.

Estimated useful life of intangibles, property, plant and equipment

The Group estimates the useful life and residual values of intangible assets, property, plant and equipment and reviews these estimates at each financial period 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 these schemes are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of assumptions used are provided in note 27.

5. Segmental information

The Group is managed as one business and one geographical segment. The business comprises dealership operations where dealerships operate a number of different business streams such as new vehicle sales, used vehicle sales and aftersales operations. Management is organised based on the dealership operations as a whole rather than the specific business streams.

Therefore, no further segmental analysis is shown, other than that disclosed within the body of this annual report.

Notes to the Consolidated Financial Statements (continued)

6. Operating expenses

	Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Wages and salaries excluding share based payments costs (note 9)	47,316	41,202
Depreciation on property, plant and equipment – owned assets	2,344	2,018
Loss on disposal of property, plant and equipment	14	69
Operating lease rentals – property	4,064	3,406
Operating lease rentals – plant and equipment	228	206
Auditors' remuneration (note 7)	178	150
Other expenses	29,473	27,522
	83,617	74,573

7. Auditors' remuneration

	Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Fees payable to the Group's auditor for the audit of the parent Company and consolidated financial statements	128	100
Fees payable to the Group's auditor and its associates for other services:		
- audit of Group's subsidiaries	30	30
- other services pursuant to legislation	20	20
	178	150

8. Exceptional costs

There is no explicit definition of exceptional items under IFRS. For the purposes of the financial statements, exceptional items are items which individually, or if of a similar type, in aggregate, need to be disclosed, by virtue of their nature, size or incidence in order to allow a proper understanding of the underlying performance of the Group.

	Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Reorganisation costs	570	985
Closure costs	482	-
Impairment of assets held for resale	1,140	-
Environmental costs	400	-
Empty property provisions	571	-
Onerous lease costs	201	375
Abortive costs	77	-
	3,441	1,360

The Group responded to the deteriorating market conditions by taking swift action to further reduce its cost base. A programme of headcount reductions was undertaken, which gave rise to one off exceptional costs of £570,000 in the financial year. As a result of this programme, the future operating costs of the Group reduced by £1.8m on an annualised basis.

Notes to the Consolidated Financial Statements (continued)

8. Exceptional costs (continued)

The Group also incurred exceptional costs of £482,000 in respect of the closure of two historically underperforming business operations.

The Board have evaluated the carrying value of the four surplus freehold properties held for resale. Due to the continuing delay in realising these assets and trends in the commercial property market, a £1,140,000 impairment has been made and the charge classified as an exceptional cost. Progress continues to be made on planning issues to aid the disposal process and, significantly, planning has been obtained for the site in Newcastle upon Tyne. The exact timing of the disposal of these assets remains uncertain.

On the redevelopment of the Group's dealerships in Oxford, environmental remediation costs of £400,000 were incurred. The Directors' believe that this cost should not be carried forward and hence the amount has been written off as an exceptional cost.

Exceptional costs in relation to empty properties were incurred during the year. These costs, totalling £571,000, related predominantly to the demolition of empty freehold properties to reduce rates liabilities, in addition to providing for ongoing rates and security at other empty property locations.

Provisions of £201,000 were made in the year for future rent liabilities on empty leasehold properties and abortive costs of £77,000 in relation to an aborted acquisition have been classified as exceptional.

9. Employee benefit expense

	Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Wages and salaries	43,154	37,422
Social security costs	3,549	3,078
Pension costs – defined contribution plans	613	702
	<u>47,316</u>	<u>41,202</u>
Share based payments (credit) costs (note 28)	(221)	221
	<u>47,095</u>	<u>41,423</u>

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

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

The remuneration of the Directors who served during the period from 1 November 2006 to 29 February 2008 is as follows:

	Basic Salary £'000	Fees £'000	Benefits £'000	Performance Bonuses £'000	Total £'000
R T Forrester	108	-	10	150	268
K Anderson	103	-	18	125	246
P R Williams	-	67	-	-	67
W M Teasdale	-	42	-	-	42
	<u>211</u>	<u>109</u>	<u>28</u>	<u>275</u>	<u>623</u>

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

Notes to the Consolidated Financial Statements (continued)

9. Employee benefit expense (continued)

The Company has paid £17,000 (sixteen months ended 29 February 2008: £13,000) in contributions to the defined contribution "Bristol Street Senior Executives Pension Plan" during this financial year in respect of R T Forrester and £17,000 (sixteen months ended 29 February 2008: £12,000) in respect of K Anderson.

The Remuneration Report on pages 24 to 28 contains further details of remuneration of the Directors employed by the Company.

10. Average number of people employed (including Directors)

	Year ended 28 February 2009	Sixteen months ended 29 February 2008
Sales and distribution	824	772
Service, parts and bodyshop	849	907
Administration	483	510
	2,156	2,189

11. Net finance costs

	Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Bank loans and overdrafts	(1,653)	(1,579)
New vehicle stocking interest	(597)	(88)
Other finance costs relating to Group pension scheme (note 27)	(1,567)	(1,371)
Other finance costs	(13)	(12)
Finance costs	(3,830)	(3,050)
Interest on short term bank deposits	211	212
Other finance income relating to Group pension scheme (note 27)	1,577	1,596
Finance income	1,788	1,808
Net finance costs	(2,042)	(1,242)

12. Taxation

	Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Current tax		
Current tax charge	79	-
Adjustment in respect of prior years	(843)	-
Total current tax	(764)	-
Deferred tax (see note 25)		
Origination and reversal of temporary differences	138	65
Adjustment in respect of prior years	(163)	-
Total deferred tax	(25)	65
Income tax (income) / expense	(789)	65
Comprising:		
Taxation – excluding exceptional items	62	446
Taxation – exceptional items	(851)	(381)
	(789)	65

Notes to the Consolidated Financial Statements (continued)

12. Taxation (continued)

a) Factors affecting taxation (income) expense in the period

	Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Profit before taxation and exceptional items	3,509	1,497
Exceptional costs	(3,441)	(1,360)
Profit before taxation from continuing operations	<u>68</u>	<u>137</u>
Profit before taxation multiplied by the rate of corporation tax in the UK of 28.2% (sixteen months ended 29 February 2008: 30%)	19	41
Non-deductible amortisation	52	7
Non-deductible expenses	155	42
Effect on deferred tax balances due to rate change	(3)	(25)
Small companies rate	(6)	-
Adjustments in respect of prior years	(1,006)	-
Total tax (income) / expense included in the income statement	<u>(789)</u>	<u>65</u>

b) Factors affecting future taxation charges

As of 1 April 2008, the UK Corporation Tax rate changed from 30% to 28%. The current tax rate applicable to the Group for the sixteen months ended 28 February 2009 was 28.2%. Deferred tax on temporary differences has been provided at 28%, being the rate expected to be in force when these temporary differences reverse.

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 period or the diluted weighted average number of ordinary shares in issue in the period.

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 share 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 period.

Notes to the Consolidated Financial Statements (continued)

13. Earnings per share (continued)

	Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Profit attributable to equity shareholders	857	72
Amortisation of intangible assets	183	116
Share based payments (credit) charge	(221)	221
Exceptional costs	3,441	1,360
Tax effect of adjustments	(829)	(468)
Adjusted earnings attributable to equity shareholders	3,431	1,301
Weighted average number of shares in issue ('000s)	91,981	81,170
Potentially dilutive shares ('000s)	-	123
Diluted weighted average number of shares in issue ('000s)	91,981	81,293
Basic earnings per share	0.93p	0.09p
Diluted earnings per share	0.93p	0.09p
Adjusted earnings per share	3.73p	1.60p
Diluted adjusted earnings per share	3.73p	1.60p

14. Goodwill

	28 February 2009 £'000	29 February 2008 £'000
Cost and net book value		
Net book value at beginning and end of period	18,612	18,612

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

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

In the year ended 28 February 2009, the acquired goodwill was tested for impairment, with no goodwill impairment charge deemed necessary.

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

A summary of the goodwill purchased is presented below:

	28 February 2009 £'000	29 February 2008 £'000
Bristol Street Group Limited	13,860	13,860
Blake Holdings Limited	1,366	1,366
Grantham Motor Company Limited	3,209	3,209
Other trade and asset acquisitions	177	177
	18,612	18,612

Notes to the Consolidated Financial Statements (continued)

14. Goodwill (continued)

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

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

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

An annual growth rate of 0% is assumed and a risk adjusted pre-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 10% (sixteen months ended 29 February 2008: 10%) is applied.

15. Other intangible assets

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

Notes to the Consolidated Financial Statements (continued)

16. Property, plant and equipment

2009	Freehold and Long leasehold land and buildings £'000	Short Leasehold land and buildings £'000	Vehicles and Machinery £'000	Furniture, fittings and equipment £'000	Total £'000
Cost					
At 1 March 2008	40,401	144	5,286	2,828	48,659
Additions	1,778	1,925	964	534	5,201
Disposals	(67)	-	(1,005)	(580)	(1,652)
Reclassifications	2,295	(7)	(1,899)	(366)	23
Transfers to other intangible assets	-	-	-	(121)	(121)
At 28 February 2009	44,407	2,062	3,346	2,295	52,110
Depreciation					
At 1 March 2008	331	-	450	432	1,213
Depreciation charge	529	17	1,097	701	2,344
Disposals	(56)	-	(669)	(545)	(1,270)
Reclassifications	598	(3)	(407)	(165)	23
Transfers to other intangible assets	-	-	-	(13)	(13)
At 28 February 2009	1,402	14	471	410	2,297
Net Book Value					
At 28 February 2009	43,005	2,048	2,875	1,885	49,813
At 29 February 2008	40,070	144	4,836	2,396	47,446

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

Reclassifications relate to movements between categories.

Depreciation expense of £2,344,000 has been charged in operating expenses (note 6).

Notes to the Consolidated Financial Statements (continued)

16. Property, plant and equipment (continued)

2008	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					
On incorporation	-	-	-	-	-
Acquisitions	38,409	144	4,820	2,182	45,555
Additions	1,992	-	1,732	930	4,654
Disposals	-	-	(330)	(284)	(614)
Transfers	-	-	(936)	-	(936)
At 29 February 2008	40,401	144	5,286	2,828	48,659
Depreciation					
On incorporation	-	-	-	-	-
Depreciation Charge	331	-	996	691	2,018
Disposals	-	-	(286)	(259)	(545)
Transfers	-	-	(260)	-	(260)
At 29 February 2008	331	-	450	432	1,213
Net Book Value					
At 29 February 2008	40,070	144	4,836	2,396	47,446
On incorporation	-	-	-	-	-

Transfers of £936,000 cost (with related accumulated depreciation of £260,000) relate to demonstrator vehicles that have been reclassified to inventories during the period.

Depreciation expense of £2,018,000 has been charged in operating expenses (note 6).

17. Subsidiary undertakings

Subsidiary undertakings (ordinary shares 100% owned and incorporated within England and Wales), as at 28 February 2009 and 29 February 2008 were:

Company	Principal activity
Vertu Fleet Limited	Dormant company
Vertu Motors (Third) Limited	Dormant company
Vertu Motors (Property) Limited	Property holding company
Vertu Motors (Retail) Limited	Dormant company
Bristol Street Fleet Services Limited	Dormant company
Bristol Street Commercials (Italia) Limited	Motor Retailer
Vertu Motors (AMC) Limited	Dormant company
Vertu Motors (France) Limited	Dormant company
Bristol Street Group Limited	Motor Retailer
Motor Nation Car Hypermarkets Limited	Motor Retailer
Bristol Street First Investments Limited	Motor Retailer
Bristol Street Fourth Investments Limited	Motor Retailer
Bristol Street Fifth Investments Limited	Holding company (dormant subsidiaries)
Vertu Motors (VMC) Limited	Motor Retailer
Grantham Motor Company Limited	Motor Retailer
Blake Holdings Limited	Holding company (dormant subsidiaries)
Bristol Street Limited	Dormant company
Bristol Street (No. 1) Limited	Dormant company

Notes to the Consolidated Financial Statements (continued)

17. Subsidiary undertakings (continued)

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

18. Inventories

	28 February 2009 £'000	29 February 2008 £'000
Motor vehicles	149,947	126,266
Parts and sundry stocks	5,751	5,313
	155,698	131,579

The cost of inventories recognised as expense and included within 'cost of sales' amounted to £686,441,000 (29 February 2008: £596,515,000).

Motor vehicles include new vehicles invoiced not yet paid and held by manufacturers to the order of the Group of £117,590,000 (29 February 2008: £84,928,000). A corresponding liability is held within trade payables.

19. Property assets held for sale

Property assets held for resale represent four surplus empty properties which are conditionally contracted for sale or under option. During the year, three of these properties were written down to their deemed cost value, resulting in an impairment charge of £1,140,000, disclosed within exceptional costs in note 8.

Notes to the Consolidated Financial Statements (continued)

20. Trade and other receivables

	28 February 2009 £'000	29 February 2008 £'000
Trade receivables	14,001	9,669
Less provision for impairment of trade receivables	(382)	(127)
Trade receivables (net)	13,619	9,542
Other receivables	4,022	1,420
Prepayments and accrued income	2,150	3,140
	19,791	14,102

As at 28 February 2009, trade receivables of £1,542,000 (29 February 2008: £1,619,000) were past due but not impaired. The ageing of these receivables are all within 3 months.

As at 28 February 2009, trade receivables of £382,000 (29 February 2008: £127,000) were impaired and provided for.

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

	28 February 2009 £'000	29 February 2008 £'000
At beginning of period	127	-
On acquisition	-	265
Provision for receivables impairment	694	179
Receivables written off during the year as uncollectible	(47)	(89)
Unused amounts reversed	(392)	(228)
At end of period	382	127

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

Credit Risk Management

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

21. Cash and cash equivalents

	28 February 2009 £'000	29 February 2008 £'000
Cash at bank and on hand	11,474	8,430
Short term bank deposits	1,433	1,029
	12,907	9,459

Notes to the Consolidated Financial Statements (continued)

22. Trade and other payables

	28 February 2009 £'000	29 February 2008 £'000
Current		
Trade payables	163,098	118,485
Social security and other taxes	1,684	1,770
Accruals and deferred income	9,274	13,113
Other payables	11,000	5,882
	<u>185,056</u>	<u>139,250</u>

23. Borrowings

	28 February 2009 £'000	29 February 2008 £'000
Current		
Loan notes	-	2,119
Bank borrowings	2,000	1,000
	<u>2,000</u>	<u>3,119</u>
Non-current		
Bank borrowings	14,336	23,261
	<u>16,336</u>	<u>26,380</u>

Borrowings are repayable as follows:

	28 February 2009 £'000	29 February 2008 £'000
6 months or less	1,000	2,619
6-12 months	1,000	500
1-5 years	14,336	9,000
Over 5 years	-	14,261
	<u>16,336</u>	<u>26,380</u>

a) Loan Notes

The Group issued loan notes of £2,119,000 on 29 February 2008, which were redeemable for cash on 1 September 2008. These were therefore fully paid during the period.

b) Bank borrowings

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

Loans are subject to an interest rate of 1% above LIBOR and 1% above base rate has been applied in relation to overdrafts.

Notes to the Consolidated Financial Statements (continued)

23. Borrowings (continued)

The Group has the following undrawn borrowing and overdraft facilities:

	28 February 2009 £'000	29 February 2008 £'000
Floating rate		
- Working Capital facility expiring within one year	-	10,000
- Working Capital facility expiring in greater than one year	20,000	-
- Loan expiring within one year	12,540	-
- Loan expiring in greater than one year	-	5,540
	<u>32,540</u>	<u>15,540</u>

c) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £12,907,000 (29 February 2008: £9,459,000). 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 on which no interest has been received are excluded from the above.

24. Derivative financial instruments

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

	28 February 2009 Current Liabilities £'000	29 February 2008 Current Liabilities £'000
Interest rate swaps – cash flow hedges	1,434	452

The notional principle amounts of the outstanding interest rate swap contracts at 28 February 2009 and 29 February 2008 were £7,500,000. As at 6 April 2009, the notional principle amounts of the interest rate swap contracts rises to £15,000,000. Both contracts mature on 5 April 2012.

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

25. 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:

	28 February 2009 £'000	29 February 2008 £'000
Deferred tax asset to be recovered after more than 12 months	(868)	(1,183)
Deferred tax liabilities to be recovered after more than 12 months	5,284	7,058
Deferred tax liabilities (net)	<u>4,416</u>	<u>5,875</u>

Notes to the Consolidated Financial Statements (continued)

25. Deferred income tax liabilities (continued)

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

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

2008	Deferred tax liabilities £'000	Deferred tax assets £'000	Net £'000
On incorporation	-	-	-
Acquired in the period	5,747	(636)	5,111
Charged (credited) to income statement (note 12)	486	(421)	65
Charged (credited) directly to equity	825	(126)	699
At 29 February 2008	7,058	(1,183)	5,875

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

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

2008	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Tax losses £'000	Total £'000
On acquisition	6,254	-	(507)	(636)	-	5,111
(Credited) charged to income statement	(69)	(62)	555	43	(402)	65
Charged (credited) directly to equity	-	-	825	(126)	-	699
At 29 February 2008	6,185	(62)	873	(719)	(402)	5,875

Notes to the Consolidated Financial Statements (continued)

26. Provisions for other liabilities and charges

	28 February 2009 £'000	29 February 2008 £'000
At beginning of period	1,029	-
On acquisition	-	515
Charged to the income statement (additional provisions)	1,542	809
Credited to the income statement (unused amounts reversed)	(436)	-
Used during period	(702)	(295)
At end of period	1,433	1,029

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.

27. 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 2009 are estimated to be £1,213,000.

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

The last actuarial valuation upon which the IAS 19 figures and disclosures have been based was at 5 April 2006. A valuation of the Scheme, as required by IAS 19, has been performed as at 28 February 2009 by an independent qualified actuary. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

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

	Expected rate of return 28 February 2009 %	Market Value 28 February 2009 £'000	Expected rate of return 29 February 2008 %	Market Value 29 February 2008 £'000
Equities	8.0	8,721	7.5	17,095
Bonds	4.9	12,314	5.0	11,412
Other	2.3	148	5.5	130
	6.2	21,183	6.5	28,637

Vertu Motors plc employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out above. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at 28 February 2009.

Notes to the Consolidated Financial Statements (continued)

27. 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 are as follows:

	28 February 2009 £'000	29 February 2008 £'000
Fair value of Scheme assets	21,183	28,637
Present value of funded obligations	(21,053)	(25,520)
Asset on the balance sheet	130	3,117

The movement in the fair value of Scheme assets in the period are as follows:

	28 February 2009 £'000	29 February 2008 £'000
Opening fair value of Scheme assets	28,637	27,532
Expected return on Scheme assets	1,577	1,596
Actuarial losses	(6,426)	(667)
Employer contributions	1,141	1,005
Benefits paid	(3,746)	(829)
As at end of year	21,183	28,637

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

	28 February 2009 £'000	29 February 2008 £'000
Opening fair value of Scheme liabilities	25,520	28,593
Interest cost	1,567	1,371
Actuarial gains	(2,288)	(3,615)
Benefits paid	(3,746)	(829)
As at end of year	21,053	25,520

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

	28 February 2009 £'000	29 February 2008 £'000
Interest cost (note 11)	1,567	1,371
Expected return on Scheme assets (note 11)	(1,577)	(1,596)
Total, included in net finance costs	(10)	(225)

The actual return on Scheme assets in the period are as follows:

	28 February 2009 £'000	29 February 2008 £'000
Expected return on Scheme assets	1,577	1,596
Actuarial losses	(6,426)	(667)
	(4,849)	929

Notes to the Consolidated Financial Statements (continued)

27. Retirement benefit obligations (continued)

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

	28 February 2009	29 February 2008
Discount rate for scheme liabilities	6.6%	6.6%
Limited Price Indexation ("LPI") pension increases	2.8%	3.5%
Inflation rate	2.9%	3.5%

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

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

	28 February 2009	29 February 2008
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:

	28 February 2009	29 February 2008
Male	24	24
Female	25	25

Amounts recognised in the Statement of Recognised Income and Expense in the period are as follows:

	28 February 2009	29 February 2008
	£'000	£'000
Actuarial (losses) / gains	(4,138)	2,948
Related deferred tax asset (liability) (note 25)	1,159	(825)
Total, included within retained earnings	(2,979)	2,123
Cumulative actuarial (losses) / gains	(1,190)	2,948

Notes to the Consolidated Financial Statements (continued)

28. Ordinary shares, share premium and other reserve

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

The total authorised number of ordinary shares is 125,000,000 shares with a par value of 10p per share. All issued shares are fully paid-up.

The other reserve is a merger reserve, arising from shares issued for shares, as deferred consideration, to the former shareholders of acquisitions. In the year ended 28 February 2009, shares were issued for shares to the former shareholders of Blake Holdings Limited pursuant to the sale and purchase agreement dated 2 May 2007.

Share Option Scheme

Under the Group's equity-settled share option scheme, share options are granted to executive Directors and to selected employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. Options are conditional on the employee completing three year's service (the vesting period). The options are exercisable starting three years from grant date, subject to the performance criteria set out in the Remuneration Report on pages 24 to 28. 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 31 a share based payments credit of £221,000 (sixteen months ended 29 February 2008: £221,000 charge) has been recognised during the year, in relation to the schemes as described within the Remuneration Report on pages 24 to 28.

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

Award Date	Granted / Outstanding at 28 February 2009 No of shares	Granted / Outstanding at 29 February 2008 No of shares	Exercise Price p	Date from which exercisable	Expiry Date
1 Mar 2007	513,333	513,333	93.5p	1 Mar 2010	1 Mar 2017
27 Mar 2007	705,293	705,293	93.5p	27 Mar 2010	27 Mar 2017
4 May 2007	203,704	444,444	81p	4 May 2010	4 May 2017
13 Jun 2007	270,096	366,559	77.75p	13 Jun 2010	13 Jun 2017
1 Aug 2007	971,831	971,831	71p	1 Aug 2010	1 Aug 2017
28 Aug 2007	169,231	307,692	65p	28 Aug 2010	28 Aug 2017
7 Sep 2007	181,818	352,271	66p	7 Sep 2010	7 Sep 2017
4 Jan 2008	190,000	360,000	40p	4 Jan 2011	4 Jan 2018
19 Feb 2008	-	10,000	37.5p	19 Feb 2011	19 Feb 2018
26 Feb 2008	10,000	10,000	43p	26 Feb 2011	26 Feb 2018
1 Apr 2008	233,000	-	40p	1 Apr 2011	1 Apr 2018
21 May 2008	500,000	-	44p	21 May 2011	21 May 2018
27 Jun 2008	20,000	-	38.3p	27 Jun 2011	27 Jun 2018
	3,968,306	4,041,423			

Notes to the Consolidated Financial Statements (continued)

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

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

	28 February 2009	29 February 2008
	No of share options	No of share options
At beginning of period	4,041,423	-
Granted	753,000	4,635,267
Forefeited	(826,117)	(593,844)
At end of period	<u>3,968,306</u>	<u>4,041,423</u>

All options were granted at nil consideration. The middle market price of the shares as at 28 February 2009 was 15p (29 February 2008: 41.5p) and the range during the financial year was 10p to 50p (sixteen months ended 29 February 2008: 31p to 101p).

The weighted average share price during the year was 66p (sixteen months ended 29 February 2008: 66p).

The weighted average fair value of options granted during the period, determined using the Black-Scholes model was 23p (sixteen months ended 29 February 2008: 28p) 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	30%
Option life	7 years
Expected life	5 years
Annual risk-free interest rate	5%
Dividend yield	0%
Expectations of meeting performance criteria	0%

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

The Directors believe that the share options in issue as at 28 February 2009 will not vest due to the performance criteria set. Therefore, the entire reserve balance as at 29 February 2008 has been credited through the consolidated income statement and debited through retained earnings.

29. Hedging reserve

	28 February 2009	29 February 2008
	£'000	£'000
Cash flow hedges:		
At beginning of period	(326)	-
Fair value losses during the period (note 30)	(981)	(452)
Deferred taxation on fair value losses during period (note 30)	275	126
At end of period	<u>(1,032)</u>	<u>(326)</u>

Notes to the Consolidated Financial Statements (continued)

30. Statement of changes in equity

	Ordinary shares £'000	Share Premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 March 2008	9,194	40,991	7,950	(326)	2,416	60,225
Profit for the year	-	-	-	-	857	857
Actuarial losses on retirement benefit obligations	-	-	-	-	(4,138)	(4,138)
Tax on items taken directly to equity (note 25)	-	-	-	275	1,159	1,434
Fair value losses during the year	-	-	-	(981)	-	(981)
Share based payments adjustment	-	-	-	-	(221)	(221)
New ordinary shares issued	4	-	19	-	-	23
As at 28 February 2009	9,198	40,991	7,969	(1,032)	73	57,199
	Ordinary shares £'000	Share Premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total Equity £'000
On incorporation	-	-	-	-	-	-
Profit for the period	-	-	-	-	72	72
Actuarial gains on retirement benefit obligations	-	-	-	-	2,948	2,948
Tax on items taken directly to equity (note 25)	-	-	-	126	(825)	(699)
Fair value losses during the period	-	-	-	(452)	-	(452)
Share based payments adjustment	-	-	-	-	221	221
New ordinary shares issued	9,194	40,991	7,950	-	-	58,135
As at 29 February 2008	9,194	40,991	7,950	(326)	2,416	60,225

Notes to the Consolidated Financial Statements (continued)

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

	28 February 2009 £'000	29 February 2008 £'000
Net increase in cash and cash equivalents	3,448	9,459
Cash inflow from increase in borrowings	-	(24,191)
Cash outflow from repayment in borrowings	10,119	-
Cash movement in net debt	13,567	(14,732)
Issue of loan notes (note 23)	-	(2,119)
Amortisation of loan arrangement fee	(75)	(70)
Non cash movement in net debt	(75)	(2,189)
Movement in net debt	13,492	(16,921)
Opening net debt	(16,921)	-
Closing net debt	(3,429)	(16,921)

32. Contingencies

Gains

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

Losses

HMRC are currently focusing on the partial exemption methods employed by businesses in the automotive retail sector. HMRC is challenging the use of partial exemption methods which they consider do not reflect the economic use of the overhead Value Added Tax incurred by the business.

HMRC's challenge is at an early stage but in the event that it is successful, it could have a significant impact on the motor retail sector as a whole.

Notes to the Consolidated Financial Statements (continued)

33. Commitments

a) Capital Commitments

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

b) Operating Lease Commitments

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

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

	28 February 2009		29 February 2008	
	Property £'000	Plant and Equipment £'000	Property £'000	Plant and Equipment £'000
Commitments under non-cancellable operating leases expiring:				
No later than 1 year	4,107	265	3,780	221
Later than 1 year and no later than 5 years	15,702	835	14,341	60
Later than 5 years	36,960	-	38,688	-
	59,769	1,100	56,809	281

34. Related party transactions

Key management personnel are defined as the Directors of the Group. The remuneration of the Directors who served during the year ended 28 February 2009 is set out in note 9.

Except for transactions with subsidiary undertakings, there were no related party transactions during the year ended 28 February 2009. Details of principal subsidiary undertakings are given in note 17.

35. Events after the balance sheet date

On 28 May 2009, the Group announced its intention to raise approximately £30m (net of costs) by way of a placing. The placing is conditional (inter alia) on shareholder approval. The Directors intend the net proceeds of this placing to be used to fund the future expansion of the Group.

Independent Auditors' Report to the members of Vertu Motors plc

We have audited the parent Company financial statements of Vertu Motors plc for the year ended 28 February 2009 which comprise the Company Balance Sheet and the related notes. These parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Vertu Motors plc for the year ended 28 February 2009.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the parent Company financial statements give a true and fair view and whether the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent Company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Report, Chief Executive's Review and Finance Director's Review, that is cross-referenced from the business review and future developments section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited Group financial statements. The other information comprises only Chairman's Report, the Chief Executive's Review, the Finance Director's Review, the Corporate and Social Responsibility Report, the Directors' Report, the Corporate Governance Report, the Remuneration Report and all of the other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

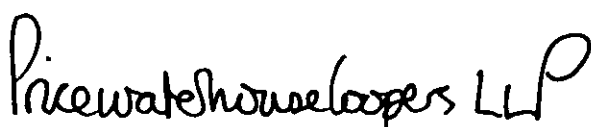
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent Company financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent Company financial statements.

Opinion

In our opinion:

- the parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 28 February 2009;
- the parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
28 May 2009

Company Balance Sheet

		As at 28 February 2009 £'000	As at 29 February 2008 £'000
Fixed assets			
Tangible assets	5	811	805
Investments in subsidiary undertakings	6	19,294	4,838
		<u>20,105</u>	<u>5,643</u>
Current assets			
Debtors	7	42,590	58,246
Cash at bank and in hand		25,942	28,239
Total current assets		<u>68,532</u>	<u>86,485</u>
Creditors: amounts falling due within one year	9	(17,122)	(11,783)
Net current assets		<u>51,410</u>	<u>74,702</u>
Total assets less current liabilities		71,515	80,345
Creditors: amounts falling due after more than one year	10	(15,664)	(23,607)
Provisions for liabilities	12	(1,433)	(1,029)
Net assets		<u>54,418</u>	<u>55,709</u>
Capital and reserves			
Called up share capital	13	9,198	9,194
Share premium account	13	40,991	40,991
Other reserve	13	7,969	7,950
Hedging reserve	14	(1,032)	(326)
Profit and loss account	15	(2,708)	(2,100)
Total shareholders' funds		<u>54,418</u>	<u>55,709</u>

The notes on pages 70 to 78 are an integral part of these consolidated financial statements.

These financial statements have been approved for issue by the Board of Directors on 28 May 2009.



Robert Forrester
Chief Executive



Karen Anderson
Finance Director

Notes to the Company Financial Statements

For the year ended 28 February 2009

The separate financial statements of Vertu motors plc, the parent undertaking, are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

1. Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with Companies Act 1985 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been consistently applied throughout the year, are set out below.

No profit and loss is presented by the Company, as permitted under section 230 of the Companies Act 1985. The loss of the Company for the year ended 28 February 2009 was £387,000 (sixteen months ended 29 February 2008: £2,321,000).

The Company is a wholly owned subsidiary of Vertu Motors plc and is therefore included in the consolidated financial statements of Vertu Motors plc. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1.

2. Accounting Policies

Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. Depreciation is provided at rates calculated to write off the cost of tangible fixed assets less their estimated residual values, on a straight-line basis over their estimated useful lives at the following rates:

Computers	25%
Office equipment	25%
Company vehicles	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 revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Notes to the Company Financial Statements (continued)

2. Accounting Policies (continued)

Deferred Taxation (continued)

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

Provisions

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

Share based payments

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

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

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

Derivative financial instruments

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

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of a derivative financial instrument represents the difference between the value of the outstanding contracts at their contracted rates and a valuation calculated using the rates prevailing at the balance sheet date.

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 11. Movements on the hedging reserve are shown in note 14. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Any trading derivatives are classified as a current asset or liability.

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

Notes to the Company Financial Statements (continued)

2. Accounting Policies (continued)

Derivative financial instruments (continued)

Cash flow hedges

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

Amounts accumulated in equity are recycled in the profit and loss account in the periods 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 interest costs. The gain or loss relating to the ineffective portion is also recognised in the profit and loss account within "other operating income and expenses".

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. When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is amortised to profit and loss over the period to maturity.

3. Wages and salaries

	Year ended 28 February 2009 £'000	Sixteen months ended 29 February 2008 £'000
Wages and salaries	2,520	2,317
Social security costs	193	177
Pension costs – defined contribution plans	178	115
	<u>2,891</u>	<u>2,609</u>

4. Employee information

The average monthly number of employees (including executive directors) employed by the Company during the period was:

	Year ended 28 February 2009	Sixteen months ended 29 February 2008
Administration	75	75
	<u>75</u>	<u>75</u>

Notes to the Company Financial Statements (continued)

5. Tangible fixed assets

	Computers £'000	Office Equipment £'000	Company Vehicles £'000	Total £'000
Cost				
At 1 March 2008	793	33	112	938
Additions	278	20	55	353
Disposals	-	(2)	(116)	(118)
Transfers	48	35	-	83
Reclassifications	-	-	24	24
At 28 February 2009	1,119	86	75	1,280
Accumulated Depreciation				
At 1 March 2008	122	11	-	133
Depreciation Charge	239	15	28	282
Disposals	-	(1)	(27)	(28)
Transfers	40	18	-	58
Reclassifications	-	-	24	24
At 28 February 2009	401	43	25	469
Net Book Value				
At 28 February 2009	718	43	50	811
At 29 February 2008	671	22	112	805

6. Investments in subsidiary undertakings

	28 February 2009 £'000	29 February 2008 £'000
Cost and net book value		
At beginning of period	4,838	-
Additions	2,500	4,838
Transfers from other Group companies	11,956	-
At end of period	19,294	4,838

The transfers in the year ended 28 February 2009 represent the investment of Vertu Motors plc in Vertu Motors (VMC) Limited and Motor Nation Car Hypermarkets, transferred from Bristol Street Group Limited, pursuant to the sale and purchase agreement dated 27 March 2007.

Additions in the year relate to a further investment in Motor Nation Car Hypermarkets Limited.

Vertu Motors plc, the Company, as at 28 February 2009 and 29 February 2008, invested in 100% of the ordinary share capital of the following subsidiary undertakings, incorporated in the United Kingdom:

Company	Principal activity
Vertu Fleet Limited	Dormant company
Vertu Motors (Property) Limited	Property holding company
Vertu Motors (Retail) Limited	Dormant company
Vertu Motors (Third) Limited	Dormant company
Vertu Motors (Finance) Limited	Finance company
Vertu Motors (AMC) Limited	Dormant company
Vertu Motors (France) Limited	Dormant company
Vertu Motors (VMC) Limited	Motor Retailer
Bristol Street Commercials (Italia) Limited	Motor Retailer

Notes to the Company Financial Statements (continued)

6. Investments in subsidiary undertakings (continued)

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

*Held indirectly by the Company.

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

7. Debtors

	28 February 2009 £'000	29 February 2008 £'000
Trade debtors	129	148
Deferred tax asset (note 8)	413	126
Corporation tax	288	-
Amounts owed by Group undertakings	40,426	56,678
Value Added Tax	456	514
Prepayments and accrued income	878	780
	42,590	58,246

8. Deferred tax asset

	28 February 2009 £'000	29 February 2008 £'000
At beginning of period	126	-
Credited to profit and loss account	12	-
Credited directly to equity	275	126
At end of period	413	126

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

	28 February 2009 £'000	29 February 2008 £'000
Accelerated capital allowances	11	-
Other short term timing differences	402	126
Total provision	413	126

Notes to the Company Financial Statements (continued)

8. Deferred tax asset (continued)

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

9. Creditors: amounts falling due within one year

	28 February 2009	29 February 2008
	£'000	£'000
Bank loans	2,000	1,000
Trade creditors	1,121	1,514
Other creditors	11,000	5,882
Other taxes and social security	827	121
Accruals and deferred income	2,174	3,266
	<u>17,122</u>	<u>11,783</u>

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

	28 February 2009	29 February 2008
	£'000	£'000
Bank borrowings	14,230	23,155
Derivative financial instruments (note 11)	1,434	452
Bank borrowings	<u>15,664</u>	<u>23,607</u>

	28 February 2009	29 February 2008
	£'000	£'000
Borrowings are repayable as follows:		
Under 1 year	2,000	1,000
1-2 years	-	2,000
3-5 years	14,230	7,000
Over 5 years	-	14,155
	<u>16,230</u>	<u>24,155</u>

The bank borrowings are secured on the assets of the Company and the Group. The table below analyses the Company's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

	Less than one year	Between two and five years	Total
	£'000	£'000	£'000
Bank borrowings*	2,000	14,460	16,460
Derivative financial instruments	-	1,434	1,434
Trade and other creditors	15,122	-	15,122
At 28 February 2009	<u>17,122</u>	<u>15,894</u>	<u>33,016</u>

	Less than one year	Between two and five years	Total
	£'000	£'000	£'000
Bank borrowings*	1,000	23,460	24,460
Derivative financial instruments	-	452	452
Trade and other creditors	10,783	-	10,783
At 29 February 2008	<u>11,783</u>	<u>23,912</u>	<u>35,695</u>

*The unamortised portion of the loan arrangement fees is not included in the above table.

Notes to the Company Financial Statements (continued)

11. Derivative financial instruments

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

	28 February 2009 Current Liabilities £'000	29 February 2008 Current Liabilities £'000
Interest rate swaps – cash flow hedges	1,434	452

The notional principle amounts of the outstanding interest rate swap contracts at 28 February 2009 and 29 February 2008 were £7,500,000. As at 6 April 2009, the notional principle amounts of the interest rate swap contracts rises to £15,000,000. Both contracts mature on 5 April 2012.

The movement on the hedging reserve within shareholders' funds is shown within note 14.

12. Provisions for liabilities

	28 February 2009 £'000	29 February 2008 £'000
At beginning of period	1,029	-
On acquisition	-	515
Charged to the profit and loss account (additional provisions)	1,542	809
Credited to the profit and loss account (unused amounts)	(436)	-
Used during period	(702)	(295)
At end of period	1,433	1,029

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.

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

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

The total authorised number of ordinary shares is 125,000,000 shares with a par value of 10p per share. All issued shares are fully paid-up.

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

Notes to the Company Financial Statements (continued)

14. Hedging reserve

	28 February 2009 £'000	29 February 2008 £'000
Cash flow hedges:		
At beginning of period	(326)	-
Fair value losses during the period	(981)	(452)
Deferred taxation on fair value losses during period	275	126
At end of period	(1,032)	(326)

15. Profit and loss account

	28 February 2009 £'000	29 February 2008 £'000
As at beginning of period	(2,100)	-
Loss for the year	(387)	(2,321)
Share based payments adjustment	(221)	221
As at end of period	(2,708)	(2,100)

16. Share based payments

For details of share based payment awards and fair values, see note 28 to the Group Financial Statements. The Company accounts for this share based payments credit for the year of £221,000 (sixteen months ended 29 February 2008: charge of £221,000).

17. Contingencies

See note 32 on page 65 for details of contingent assets or liabilities as at the balance sheet date.

18. Directors' Remuneration

The remuneration of the Directors who served during the year from 1 March 2008 to 28 February 2009 is set out within note 9 to the consolidated financial statements.

19. Commitments

a) Capital Commitments

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

b) Operating Lease Commitments.

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

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

	28 February 2009 Vehicles £'000	29 February 2008 Vehicles £'000
Commitments under non-cancellable operating leases expiring:		
No later than 1 year	88	131
Later than 1 year and no later than 2 years	33	90
	121	221

Notes to the Company Financial Statements (continued)

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 statements are presented with consolidated financial statements of its Group.

21. Events after the balance sheet date

On 28 May 2009, the Company announced its intention to raise approximately £30m (net of costs) by way of a placing. The placing is conditional (inter alia) on shareholder approval. The Directors intend the net proceeds of this placing to be used to fund the future expansion of the Group.