Vertu Motors plc

ANNUAL REPORT & FINANCIAL STATEMENTS

For the year ended 28 February 2017

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Vertu Motors plc Mission Statement

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

Chairman's Statement

The Board is reporting a further year of strong growth, exhibiting record levels of revenue, operating profit, earnings per share and dividends.

These results demonstrate that the Group remains set for further growth, well positioned with Manufacturers and in a healthy financial position. I remain optimistic about the Group's growth prospects underpinned by a very strong balance sheet.

The Group's objective is to deliver long-term value for its owners through building a scaled, franchised dealership business generating significant, resilient and increasing cashflows. The Group seeks to do this by pursuing a consistent strategy with a well-established business model. This report will set out the strategy, explain the business model and describe how the Group has used the model to establish a robust competitive position from which to generate growth in cashflows over the long-term. Growing cashflow is a result of growing revenues, managing margins, operating costs and tax payments and managing working capital and capital expenditure within the framework of a suitable funding structure. This report will examine each of these areas. The record results announced for the year ended 28 February 2017 ("the Period") demonstrate further delivery against the Group's objective.

We have a very talented, stable operational team which is committed to delivering on the Group's strategy and I would like to take this opportunity to thank every colleague in the Group for their commitment and dedication during the year.

Financial Highlights

Growing Revenues

- Revenues increased by 16.5% to £2,822.6m (2016 : £2,423.3m)
- Like-for-like service revenues up 5.8% long-term growth trend continues
- Like-for-like used vehicle volumes increased 7.1%: over 5 years of continuous growth
- Softening of new private retail market: Group like-for-like new car retail volumes down 6.4%
- Record Group trading performance driven by improvement in recently acquired businesses, a strong used car performance and growth in higher margin service area
- Growth strategy progressed with greater premium mix, including the addition of the Mercedes-Benz and Toyota franchises to the Group

Strengthening Margins

- Group gross profit margins increased from 10.9% to 11.1%
- Group like-for-like service gross profit margins strengthened from 76.8% to 77.7%
- Like-for-like used car margins strengthened from 10.1% to 10.6%

Managing Operating Expenses and Tax Payments

- Operating expenses as a percentage of revenue up to 10.0% (2016: 9.7%) due to increased numbers of customer facing colleagues and higher used car marketing spend
- Growth in expenses as a percentage of revenue stabilised in H2
- Effective rate of taxation 19.5% (2016: 20.3%)

Generating Cash Profits and Managing Working Capital

- EBITDA up 20% to £41.4m (2016: £34.5m)
- Cash generated from operations of £58.1m (2016: £65.8m) representing cash conversion of operating profits of 181%
- Record profit before tax up to 14.6% to £29.8m (2016 : £26.0m)
- Cash of £16.0m generated from working capital (2016 : £30.5m)

Chairman's Statement (continued)

Financial Highlights (continued)

Investing to Support Future Cash Growth

- £54.4m invested in acquiring land and dealerships (2016: £31.0m)
- £25.1m of capital expenditure, primarily on new dealership developments and increasing capacity in sales and aftersales areas (2016: £14.0m)
- Year one of a two year period of major capital investment: spend levels expected to substantially reduce thereafter

Very Strong Balance Sheet to Fund Growth

- Period end net cash of £21.0m (2016 : £23.1m)
- New five year acquisition banking facility signed in February of £40m, with the potential to add a further £30m
- Raised £35m in March 2016 to finance further acquisitions: this capital has been deployed as planned
- Used car inventory largely unencumbered from short-term stocking loans
- Freehold and long leasehold property of £182.0m (2016 : £137.7m)

Focus on Shareholder Returns

- Dividend up 7.7% to 1.4p per share (2016 : 1.3p per share)
- 280% dividend growth since dividends commenced in 2011
- Return on equity fell to 10.8% (2016 : 11.4%) following the equity raise during the year
- Long term (10 years) free cashflow to equity as a percentage of equity 12.1% (2016 : 9 years, 12.7%)

Board Changes

Bill Teasdale, who served as Chairman of the Company when it was initially established then subsequently as a Non-Executive Director since March 2007, will retire from the Board at this year's Annual General Meeting on 26 July 2017. As one of the founders of Vertu Motors plc, Bill's role in supporting Robert both in the creation of the Group, and subsequently in its growth over the last 10 years, has been seminal. The entire Board will miss Bill's wise counsel and we all wish him the best in his forthcoming retirement which is well deserved.

Current Trading and Outlook

In March and April 2017 ("the post year-end period") the Group has continued to trade strongly, with profits ahead of the prior year on a like-for-like and total basis. Margins strengthened and operating expenses on a like-for-like basis were reduced as the cost base was flexed for lower new vehicle sales volumes and cost efficiency programmes delivered.

Used cars continued to see like-for-like volume growth and margin improvement. Service also witnessed growing revenues and stable margins on a like-for-like basis.

The March plate change month saw a record number of new vehicle registrations in the UK according to the SMMT. The 4.4% growth in March new retail UK registrations was aided by an element of pull forward of demand due to increasing vehicle excise duty from 1 April 2017 and the timing of Easter. April, as anticipated, saw a decline in SMMT new retail registrations of 28.4%. In the post year-end period SMMT new retail registrations declined by 3.5%. The Group saw significant growth in new retail vehicle profit contribution in the post year-end period despite a 9.7% decline in like-for-like new retail volumes. Pricing disciplines and cost control delivered higher margins and profits year on year in new vehicle sales.

The Board is also pleased to report an excellent contribution in the post year-end period from dealerships acquired in the previous financial year.

While the Board is aware of the wider reporting of the UK entering a more cautious consumer environment, trading in the post year-end period has been strong. The Board remains confident about the Group's prospects for the current financial year and in delivering further progress in enlarging the scale of the Group.

P. Jones
Non-Executive Chairman

Strategic Report

The Directors present their Strategic Report on the affairs of the Group and Company, for the year ended 28 February 2017.

Strategic and Portfolio Management

To deliver long-term value to the Group's owners, the Group's strategy is to grow a scaled UK automotive retail group through acquiring both volume and premium franchised dealerships. The Board believes that the benefits of scale in the sector are increasing over time. Scale benefits include: a national on-line and off-line co-ordinated marketing strategy to maximise the benefits of our unique national footprint, scaled contact centres, franchise management dedication, purchasing efficiencies and access to competitive consumer finance packages for the Group's customers. Further consolidation of the sector by large-scale national brands is likely to continue in the years ahead in what is still a sector with a fragmented ownership structure in the majority of franchises.

The Group will continue to acquire dealerships across the volume and premium spectrum as the Board currently believes that capital can continue to be invested in additional dealerships to deliver significant return on investment to shareholders in the short and medium term. The fragmented nature of the UK automotive retail sector means that significant growth potential remains and crucially, the Group has substantial headroom for further growth with the vast majority of its Manufacturer partners, particularly in the Premium space. Following this strategy, the Group undertook a number of further significant acquisitions in the first quarter of the financial year.

The Board adopts a rigorous process in deciding whether to pursue an acquisition. Six-monthly we assess our strategic position with each Manufacturer to confirm the Board's standpoint on future investment in the franchise. This leads to an Add, Hold, Reduce or Avoid conclusion which underpins the Group's strategic portfolio management. Investment evaluations for specific opportunities involve detailed three-year investment appraisals, utilising set return on investment hurdle rates, to ensure appropriate capital allocation.

Since the first quarter of the financial year, the Board has continued to assess several further acquisition opportunities, rigorously applying consistent valuation criteria. For those opportunities, the valuations sought by the vendors have not met the Board's investment return criteria and therefore have not been progressed. Further opportunities continue to be assessed. The addition of further dealerships and new franchise partners to the Group's portfolio will enable the Board to deliver its goal of creating a balanced and diversified portfolio of franchised businesses, so reducing the Group's exposure to variations in individual Manufacturers' performance. Such growth, however, can only be undertaken at appropriate valuations to ensure future returns are acceptable.

Modern automotive retailing is undergoing substantial changes and these changes are likely to accelerate in the years ahead. The rise of digital sales channels, CASE (Connected, Autonomous, Sharing and Electric) developments and Manufacturer investment and scale requirements are likely to have an impact on franchised networks and the locations which the Group will want to operate from in the future. These trends represent an opportunity for scaled franchised dealer groups and are likely to drive further consolidation in the sector. We are mindful of these changes when considering the current portfolio and how it will evolve and the following trends are considered particularly pertinent:

- There will be a trend away from rural, smaller franchise points and greater investment in larger, urban representation points. Acquisitions and disposals must reflect this trend.
- Property flexibility may have increasing importance, resulting in lease length and structure being important as the Group manages its portfolio. Freehold ownership is preferred by the Board given the greater flexibility this affords.

The Board performs a detailed review of underperforming dealerships within the portfolio on a regular basis. Underperformance can stem from local management issues, franchise performance variability or more long-seated factors. Where the latter prevail and the Board considers long term appropriate returns may not be achievable, then action is taken such as refranchising, disposal or closure. Manufacturer capital expenditure requirements are often a key factor in crystallising such decisions based on an assessment of future returns.

Strategic and Portfolio Management (continued)

The Board notes the prospective acquisition of Vauxhall/Opel by PSA. The combined PSA business will be a very important, scaled Manufacturer partner to the Group. PSA has undergone a major turnaround in its profitability in recent years which contrasts with the losses made by Opel/Vauxhall over a long period. The proposed acquisition is viewed positively by the Board in increasing the ability of the enlarged PSA business to invest in new products and technologies which are so vital to the long-term success of franchised retailers. The Group operates 14 Vauxhall dealerships together with nine PSA dealerships.

Portfolio Changes

Portfolio changes have been made reflective of the principles and trends outlined above:

- A number of smaller franchise outlets were exited in the Period, including Barnsley SEAT and Worksop Peugeot.
- Steps were taken to exit the Fiat, Jeep and Alfa Romeo franchises. This included the disposal of the Newcastle Fiat brand centre in September 2016 and the closure of Fiat sales outlets in Cheltenham and Derby in January 2017. The Group's one remaining Fiat/Alfa sales outlet will cease operations in Worcester by the end of 2017.
- On 31st March 2017 the Group disposed of its loss-making Chesterfield Peugeot dealership to Stoneacre. This reduces the Peugeot representation held by the Group to five dealerships and no further reduction is planned.
- Two accident repair centres located within Group dealerships were closed in the Period. These operations were marginal and sub-scale. Post year end, the closure of a further two accident repair centres was announced to allow for the space utilised to be allocated to increase capacity in more profitable activities as part of dealership redevelopments. This will leave the Group with six accident repair centres.
- Hyundai was introduced to the Group's existing dealership in Bristol and in May 2017 the Mazda operations at this dealership ceased to allow single franchise focus on Hyundai.
- The Group entered the Mercedes-Benz franchise in March 2016 with the acquisition of the Greenoaks dealerships in Reading, Slough and Ascot. The franchise is currently the top rated franchise in the UK by retailers in the latest NFDA survey.
- The Gordon Lamb acquisition in June 2016 brought the Toyota franchise to the Group for the first time and further enhanced representation with Land Rover, Nissan and Skoda.
- Leeds Jaguar was acquired in May 2016 from Inchcape.

Dealerships acquired in the year ended 29 February 2016 made a profit before interest and tax contribution of £2.1m in the Period, and those acquired in the Period contributed a further £1.5m. These businesses have been successfully integrated into the Group and are performing in line with their acquisition business plans. The sites closed or disposed of during the Period lost £0.7m (2016: £0.7m) hence these actions will enhance future returns of the Group.

As a consequence of the above changes, the Group now operates 124 franchised sales outlets, and 3 non-franchised sales outlets, from 104 locations.

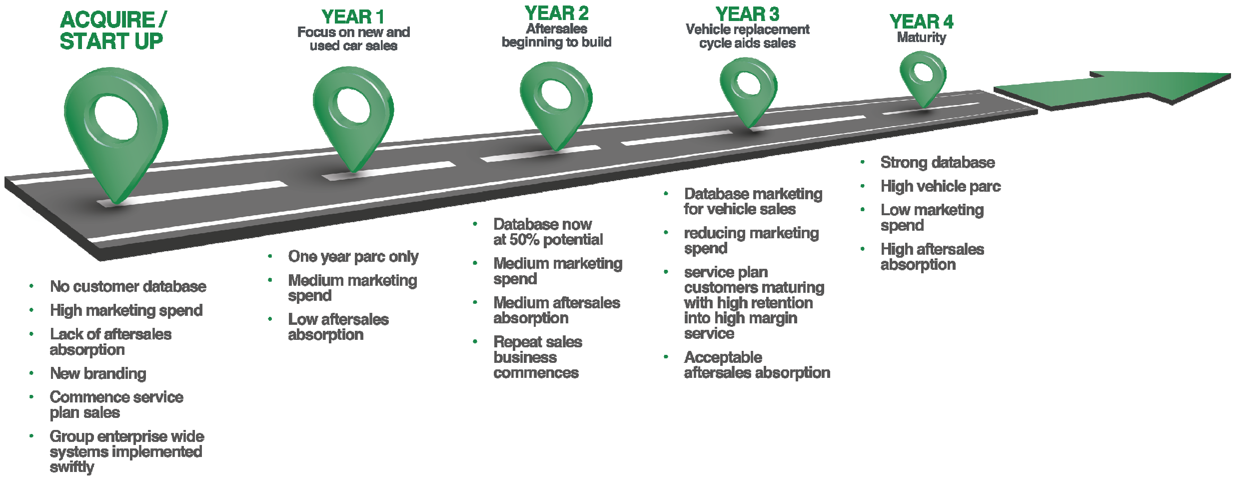
Business Model and Competitive Positioning

The Group's business model has remained consistent for the ten years the Group has operated and enables the successful delivery of enhanced business performance from acquired dealerships, through the implementation of the Group's brand model, business processes and systems. This is delivered by a senior management team that is very stable and highly experienced. Many of the Group's acquisitions are turnaround opportunities and a number are new start-up dealerships sharing similar characteristics, including a weak customer database and consequently an aftersales business performing below its potential. The aftersales activities have significantly higher margins compared to vehicle sales and the Group's business model works to improve and then maximise the aftersales performance and hence improve margins. Growing the aftersales potential is fundamentally a function of increasing the sale of new and used cars by the dealership in the locality and ensuring high levels of customer retention into service.

Strategic Report (continued)

Business Model and Competitive Positioning (continued)

This model, and an indicative timeline for its application to a newly acquired dealership, is set out below:



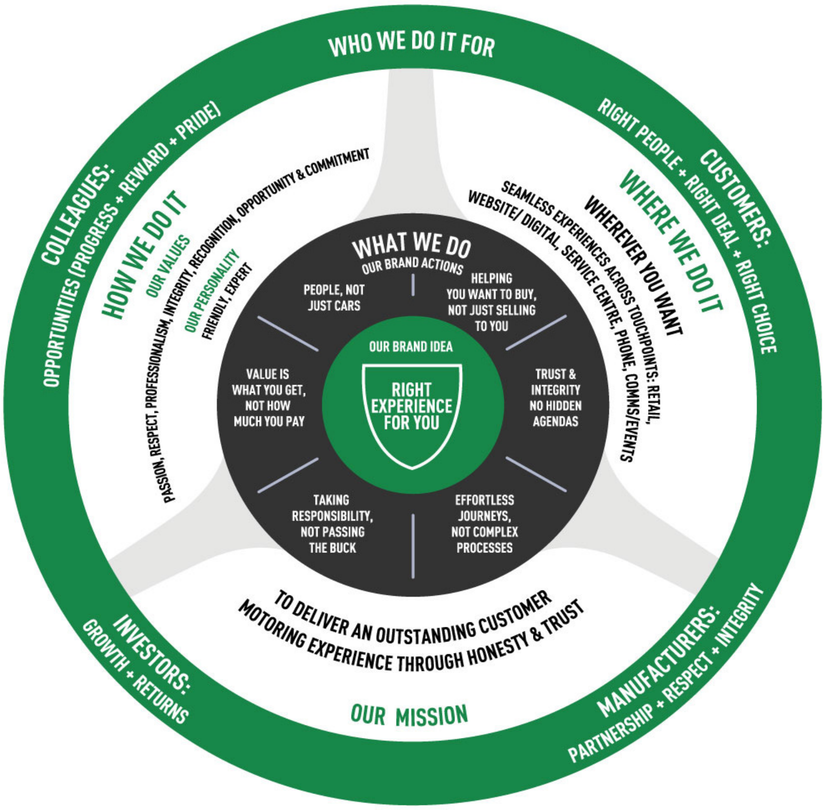
The success of the Group's strategy is evidenced by the rapid growth since the first acquisition in 2007 and the turnaround and integration of acquired dealerships to date. The Group has become the fifth largest automotive retailer in the UK by revenues from a standing start in 2007. Many of the acquisitions undertaken in recent periods have still to become fully established and this provides the Group with further opportunity to deliver improved margins and grow organic profit over the medium term.

The successful integration of acquisitions into the Group has to be one of our core competencies. Management has a significant amount of experience in this area. Key to successful integration are the following:

- Ensuring new colleagues (employees) understand the Vision, Values and Culture of the Group
- Transferring key managers from the core Group to the new businesses
- Implementation of the Group's single platform of systems and processes as soon as possible
- Leveraging the Group's key scaled brands and marketing power, including on-line assets, across the new businesses

Business Model and Competitive Positioning (continued)

The Group adopts a "Right People, Right Choice, Right Deal" brand model, centred on "Right Experience for You". The "Right Experience" applies equally to colleagues, customers, Manufacturer partners and indeed owners. This brand model is illustrated below and utilised extensively in the business to provide clarity on what we do, how we do it and where we are going as a business.



This brand model is based on a fundamental premise that it is the colleagues in each business together with management who deliver on customer needs to create long-term value for the business. Ensuring that each business has the right Values and culture is of paramount importance to building both long-term relationships with loyal customers and a stable team of colleagues. In the July 2016 Colleague Satisfaction Survey over 98% of responding colleagues knew the Vertu Values and 91% thought the Directors actively practiced them. It is clear that the more the Core Values of Passion, Respect, Professionalism, Integrity, Recognition, Opportunity and Commitment are in place in the business, the stronger the business is and significant senior management time is spent promoting and reinforcing these Values. The brand model has a number of brand actions which are designed to guide colleagues and management into being customer-centric. For example, "effortless journeys, not complex processes" is an important mantra in assessing the effectiveness of both on-line and off-line processes and any proposed developments impacting customers. By building trust from customers for the business, the Group aims to build long term relationships through the lifecycle of buying, owning and selling vehicles. There is a clear correlation, in our view, between a high level of colleague satisfaction, great customer experiences and the generation of higher margins in the business.

The Group's stakeholders are highlighted in the outermost ring of the brand model as it is these stakeholders that ultimately benefit from the successful delivery of the brand model.

The success of the business and the delivery of the brand model relies heavily on strong, high quality management teams to deliver the required returns over time. The recruitment, development and retention of high performing automotive retail professionals is of paramount importance, particularly in General Manager roles providing leadership in each dealership. The Group has developed a culture which seeks to attract and retain top performers.

Business Model and Competitive Positioning (continued)

The operations of the Group are overseen by a CEO Committee of the 12 most senior people in the Group. This cadre is very stable with four members in place since the Group started and an average tenure of seven years. This stability provides a consistency to Group management which helps to build a single Group culture. As the Group has expanded over a larger number of dealerships, maintaining focus and a consistency of culture remains paramount. We believe that multi-layering of management is best avoided since it elongates decision-making and can make senior management divorced from customers and the grass roots operations. Having the right people at a senior level in the Group who can positively influence large divisions is therefore vital and the Board believe this balance has been achieved to date. It is critical that the entrepreneurial culture that the business started with, remains in place and simplicity and lack of bureaucracy are crucial objectives applied to operational proposals and changes.

As the Group has expanded the senior team has been augmented over time through recruitment or via acquisition. In 2016 two key appointments were made:

- Tim Tozer, formerly of Inchcape, Autobinck and Chairman of Vauxhall Motors joined the Group as a new Operations Director responsible for a number of franchises
- Liz Cope, former Global Brand and Research Director of Dyson and VP Global Marketing for Vax, joined as Chief Marketing Officer

Both individuals have settled in well and have now been in place for over 12 months. They are having a positive impact on the business.

The Mission Statement of the Group is to "deliver an outstanding customer motoring experience through honesty and trust". Fundamentally it is the acquisition and retention of customers that drives the ultimate value of the Group in the long-term. Marketing is critical to both the acquisition and retention of customers. Following the appointment of Liz Cope substantial progress has been made to improve the quality, effectiveness and channel reach of the Group's marketing activities. Key achievements have been:

- Bringing social media activities in-house with a significant increase in engagement as a consequence
- Development of a new marketing campaign centred around "What's Yours Called"- what name do you give your car – which is consistently run across TV, digital and other off-line platforms for a number of the Group's core brands. Over one million people have been reached on Facebook by the campaign since 1 March 2017.
- Capability has been increased with further investment in new divisional marketing roles, live chat and reputation management resource and bringing design in-house
- Media purchasing is now sourced through a single, external agency which is yielding purchasing and marketing deployment economies and efficiencies
- Full on-line retailing of used vehicles has been launched including part-exchange valuation and finance provision. Further digital initiatives (which are developed from a systems perspective in -house) are in progress to ensure the Group is at the forefront of the industry in this area.

The retention of customers is achieved by several Group strategies:

- Retention of sales customers into the higher margin aftersales channel is aided by the Group's centralised Business Development Centre which ensures contact is made to book relevant service work, in addition to on-line booking capabilities and secures the high sales penetration of service retention products such as three-year service plans. The Group now has over 100,000 customers paying monthly over a three-year period for services and MOT creating a highly resident, high margin service business.
- Customer experience is crucial for creating loyalty and the desire to return to the Group for future motoring needs. Customer experience is measured by the Group in several ways:

Business Model and Competitive Positioning (continued)

- Manufacturers measure service and new car sales customer experience monthly for each dealership as well as undertaking mystery shops. The Group scores significantly ahead of national average scores on these measures and in addition undertakes its own mystery shopping programme.
- On used cars, the Group measures customer experience using an external supplier. 96% of customers currently would recommend the Group following the purchase of a used car. This high level of customer advocacy is mirrored in high scores on the public review sites such as Trust Pilot.
- Management at all levels, including the Executive Directors, are rewarded based on the above customer experience measures which the Board believe are fundamental to the future success of the Group in generating higher revenues, margins and cash returns.

The Board is cognisant of further EU regulations in relation to the use of personal data, (“GDPR”). In order to ensure customer contact post May 2018 can be undertaken by the Group in line with these regulations, the Group is currently undertaking a review of systems and processes.

United Kingdom’s exit from the European Union

Brexit may impact the Group in the areas of changing regulation, currency fluctuations and terms of trade for new vehicle imports to the United Kingdom.

In the short term, the biggest impact of Brexit on the automotive retail sector is the weakening of Sterling which reduces the attractiveness of the UK as a market to EU producing vehicle Manufacturers. Vehicle price rises have been evident, along with reducing volumes in the new retail car sector over the last twelve months. Effects have been somewhat muted to date with March 2017, for example, delivering a record month overall for UK new vehicle registrations.

In the medium term there could be consequences for the UK automotive retail sector if tariffs were to be introduced on motor vehicles imported into the UK. This could further increase sales prices and potentially reduce consumer demand. The UK Government has a stated negotiating objective to avoid any such tariff barriers, and during the two year period of the negotiation of the future trade terms between the UK and the EU, tariffs on motor vehicles are likely to be a key point of discussion. Potential free trade agreements with Non-EU states may present UK opportunities for Manufacturers with Non-EU production capacity and the future franchising strategy of the Group will need to be cognisant of these developments.

The contractual relationships between Manufacturers and franchise partners are constructed within the framework of EU competition law. There is, therefore, the potential for the legal frameworks to evolve in a different direction once legal competency returns to the UK. The Board judge that it is unlikely to be a priority area for the UK Government in the short term and the status quo is likely to remain in place as a result. Franchise agreements are likely to evolve in any event as Manufacturers and retailers react to developments in technology and new revenue models emerge.

Growing Revenues and Margins

Year ended 28 February 2017

	Revenue £’m	Revenue Mix %	Gross Margin £’m	Gross Margin Mix %	Gross Margin %
Aftersales[1]	227.0	8.0	123.4	39.4	44.6
Used cars	1,037.5	36.8	100.7	32.1	9.7
New car retail and Motability	909.4	32.2	68.3	21.8	7.5
New fleet and commercial	648.7	23.0	21.1	6.7	3.3
	2,822.6	**100.0**	**313.5**	**100.0**	**11.1**

Strategic Report (continued)

Growing Revenues and Margins (continued)

Year ended 29 February 2016

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales[1]	189.0	7.8	102.9	39.1	44.8
Used cars	850.2	35.1	83.5	31.7	9.8
New car retail and Motability	796.5	32.9	59.3	22.5	7.4
New fleet and commercial	587.6	24.2	17.6	6.7	3.0
	2,423.3	**100.0**	**263.3**	**100.0**	**10.9**

1. margin in aftersales expressed on internal and external turnover.

The results for the year ended 28 February 2017 record the fifth consecutive year of growth in Group revenues and profits.

Revenues in the Period increased by 16.5% (£399.3m) to £2,822.6m (2016: £2,423.3m). This included the impact of acquisitions made during the year (£179.7m) and the full year impact of prior year acquisitions (£140.7m). Like-for-like revenues grew by 4.4% (£99.4m) driven predominantly by higher volumes of used car sales. Closed operations resulted in a £20.5m year on year revenue reduction.

Overall vehicle revenues grew by 16.2% in the year and amounted to 92.0% of total revenues (2016: 92.2%), whereas total aftersales revenues grew by 20.1% and amounted to 8.0% of total revenues (2016: 7.8%). On a like-for-like basis and a total basis, gross margins strengthened from 10.9% to 11.1% aided, in part, by the enhanced mix of the business towards higher margin aftersales activities.

Aftersales

The Group's aftersales operations, which comprise servicing, supply of parts, accident repairs, smart repair and forecourt activity, represent a vital element of the Group's business model, since significantly higher returns are generated from these activities than those achieved in vehicle sales. While aftersales represents 8.0% of Group revenues, it accounts for 39.3% of gross margin, so management focus on maintaining and improving performance in this area is crucial to the Group's overall results. The market for service and repair, in particular, has expanded with the vehicle parc as new vehicle sales have grown over recent years and this parc growth is expected to continue for a period. The Group has substantial opportunities to grow the volume of the higher margin activities due to this parc growth and self-help strategies to increase customer retention.

The future development and growth of the service operations will also depend on addressing a number of key issues in recruiting, training and retaining more technicians. As a result, there is a significant increase planned in apprenticeship recruitment in the service operations. There is also likely to be a need to revise shift and resource patterns to make greater use of the physical capacity of the dealerships. Customers are seeking and expecting a more flexible "on demand" vehicle servicing experience, particularly at week-ends and potentially overnight, which is more convenient for them. In addition, fast while you wait servicing is also likely to increase in scope. While customers find franchised dealerships good value for money and expert on the product, leakage does occur to the independent aftermarket which can be more local and more convenient in terms of opening hours. Accordingly, to address the capacity and convenience points, the Group is experimenting with flexible working rotas, new shift patterns for service technicians and fast turnaround for waiting customers with two technicians per work station.

Growing Revenues and Margins (continued)

Aftersales (continued)

Overall aftersales revenues increased by 20.1% in the Period reflecting both acquisition and organic growth. Margins fell slightly from 44.8% to 44.6% due to reduced parts margins as bonus income from Manufacturers reduced in the period.

The Group saw like-for-like revenues in all aftersales activities increase by 5.1% and like-for-like gross profits grew by £4.6m (4.7%) in the period. Like-for-like aftersales margins were stable at 45.3%. Service revenues rose 5.8% on a like-for-like basis, representing the seventh successive year of growth in this key high margin area. Like-for-like service margins grew to 77.7% (2016: 76.8%). These trends are the result of the significant focus in the Group on driving operational excellence in service to enhance financial performance, the delivery of excellent customer experiences to increase customer loyalty and the success of the service plan retention strategy. The Group's vehicle health check process has been further embedded into the business. This seeks to ensure that all customer vehicles visiting the Group's dealerships are given a comprehensive mechanical health check to identify any service and repair work which may be required. The results are then presented to the customer with a clear and costed explanation of any such work identified, increasingly utilising video technology. The performance of this process is monitored daily to ensure that the Group's customers are given the best opportunity to enjoy a trouble-free motoring experience following their visit.

The Group's accident repair centre revenues grew 2.9% on a like-for-like basis and margins improved further to 66.4% (2016: 66.3%). Capacity continues to reduce in the market overall in this sector and consolidation continues.

Supply of Manufacturer parts continues to be a vital part of the franchised retailer model. Parts revenues rose 5.7% on a like-for-like basis while margins fell to 21.9% (2016: 23.2%) due to reduced Manufacturer rebates in several key franchises. Manufacturers are increasingly pursuing strategies to increase the efficiency of parts distribution networks and to reduce the supply push of parts into the network. Reduced rebates may arise from these changes, but benefits, such as a reduction in low margin sales, lower stockholding and obsolescence costs and reduced costs of funding working capital, also may accrue to the retailer.

Vehicle Sales

Vehicle unit sales analysis

	2017 Core	2017 Acquired[2]	2017 Total	2016 Total[3]	Total % Variance	Like-for-Like % Variance
Used retail vehicles	**74,385**	**7,251**	**81,636**	**71,702**	**13.9%**	**7.1%**
New retail cars	36,635	4,890	41,525	39,790	4.4%	(6.4%)
Motability cars	10,755	641	11,396	11,435	(0.3%)	(4.8%)
Fleet and commercial vehicles	34,194	1,383	35,577	35,123	1.3%	(1.5%)
Total New vehicles	**81,584**	**6,914**	**88,498**	**86,348**	**2.5%**	**(4.2%)**
	155,969	**14,165**	**170,134**	**158,050**	**7.6%**	**0.9%**

2. relates to businesses acquired or developed subsequent to 1 March 2016 with businesses included within core once they have been in the Group for over 12 months
3. 2016 volumes include businesses acquired in the year ended 29 February 2016

Growing Revenues and Margins (continued)

Vehicle Sales (continued)

The Used vehicle market has remained stable during the year from a pricing perspective. Vehicle values have displayed the usual seasonal fluctuations driven primarily by the ebb and flow in supply created by new vehicle plate change months. Sales volumes in the market generally have increased around 6% augmented by increased nearly new product entering the market as self-registered vehicles.

The Group had a very successful year in the key area of used vehicle retailing. For the first time over 80,000 used vehicles were retailed and overall year-on-year volume growth was 13.9%. The strong like-for-like growth in used vehicle volumes of 7.1% in the period includes the Group's eleventh consecutive half year period of like-for-like used vehicle volume growth. Used car growth has been aided by the expertise of dealership management in their local area augmented by excellent sales and stock processes and internally developed systems. For example, the Group Sales Director, Steve Ferry, undertakes regular reviews of dealership used car sales and stock trends with Divisional Management to ensure improvements are identified and actioned. This drives both sales volumes and better margin through enhanced stock turn and the reinforcement of strong pricing disciplines. The Group has also benefitted from increased and, we believe, more effective used car marketing approaches in the period.

The Group's like-for-like used vehicle gross margin rose to 10.6% (2016: 10.1%), and gross profit per unit was £1,263 (2016: £1,185). As a result of these positive trends, the Group increased like-for-like used vehicle gross profits by £10.6m in the period representing an increase of 13.3%.

The UK new vehicle market reached a record level of 2.7 million registrations in the year ended 31 December 2016 (SMMT). Private new vehicle registrations, which had grown for over three years until March 2016, began to record year-on-year declines from April 2016, and during the Period, the SMMT private new vehicle registrations fell by 1.0%. As the private new retail market has softened, there have been higher levels of self-registration of vehicles by retailers to bridge the gap between genuine retail demand and the volume aspirations of Manufacturers. In these circumstances, the Group's new retail sales volume tends to lag the SMMT registration data. The Group's strategy during this period has been to work to achieve Manufacturer performance targets at high levels while also maintaining strong pricing disciplines. As a consequence of these trends, new vehicle car sales accounted for a declining percentage of Group revenues of 32.2% (2016: 32.9%).

The Group delivered over 41,000 new retail vehicles in the year. The Group's total new retail vehicle volumes grew by 4.4%, while like-for-like volumes fell by 6.4%. The decline accelerated in the second half of the financial year with like-for-like new retail sales volumes down 4.2% in H1 and down 8.9% in H2. This decline in volume reflected in the main, the impact of the fall of Sterling against the Euro and other currencies following the Referendum. Average sales prices rose for the Group, and in the market generally, and some Manufacturers started to reduce planned volumes into the UK, even with the prospect of losing market share. Like-for-like new vehicle gross margins were stable at 7.4% while gross profit per unit increased by 5.2% to £1,196 (2016: £1,137). The Group's like-for-like new vehicle gross profits declined by £1.0m and the Board is pleased to have maintained percentage margins in this context. Total margins rose slightly from 7.4% to 7.5% due to the Premium mix of recent acquisitions.

Volumes of sales on the Motability Scheme fell by 4.8% on a like-for-like basis against a 1.1% decline in UK Motability registrations. The Group delivered over 11,000 Motability vehicles and will benefit from the guaranteed service revenues on these vehicles over the next three years. The Group's under performance in the Motability channel versus the wider Motability market reflected franchise mix as Manufacturers reacted to Sterling's depreciation in different ways. The Motability market overall is seeing slight declines as a consequence of the replacement of the Disability Living Allowance by Personal Independence Payments as part

Strategic Report (continued)

Growing Revenues and Margins (continued)

Vehicle Sales (continued)

of UK benefits reform. The Group was awarded Motability Dealer Group of the Year 2016 by Motability for the third year in a row. This reflects the Group's focus and success in this key channel of the UK car market.

Fleet and Commercial vehicle sales represent a substantial part of the Group accounting for 23% of Group revenues and the delivery of over 35,000 vehicles. Total Fleet and Commercial volumes rose 1.3% with like-for-like volumes down 1.5%. The Commercial vehicle business continued to take market share with like-for-like volumes up 1.6% compared to a 1.2% increase in SMMT registration data. The growth was heavily skewed towards the first half with a slowdown in the second half. One of the key drivers of this was the change in diesel engine specification in June 2016 from Euro5 to Euro6. The Euro6 models are more expensive, so many fleet operators accelerated purchases prior to the change benefiting from advantageous pricing on the run out of Euro5 models. This has resulted in a market slow-down after June 2016. Fleet car supply saw declines in the first half of the period but returned to growth in the second half. Overall, like-for-like Fleet car volumes fell 4.2% in the Period as the Group maintained its pricing disciplines in this competitive, low margin channel. Total gross profit margins rose from 3.0% to 3.3% reflecting these disciplines together with enhanced Premium franchise mix and the growth in commercial van sales. Like-for-like margins rose 0.1%.

Managing Operating Expenses

As a sector consolidator, the Group aims to gain operational leverage benefits from spreading central operating expenses over a growing, enlarged group. Moreover, in an inherently low margin business, it is vital that a disciplined framework of cost control is in place and is a core competency for operational management. The Group's cost control framework is built around a highly detailed business planning approach which is undertaken annually for all dealerships, profit centres and cost centres. Once the business plans are established, costs are benchmarked on a monthly basis for every dealership against the business plans, prior year levels, internal benchmarks and recognised industry key performance indicators (Source: ASE) to maintain control and to identify opportunities for additional cost control. The Group's central purchasing function also pursues cost efficiencies and scale purchasing benefits in the procurement and monitoring of utilities and other goods not-for-resale.

The Group is also focussed on driving productivity and efficiency into the business to enhance cash profits and offset cost headwinds. A committee chaired by the CEO has been in place for over a year with a remit to identify and execute these productivity gains and these are now starting to bear fruit. Colleagues are incentivised to identify bureaucracy, costs and processes that do not add value via a "You Suggest" scheme, which has yielded some excellent areas for action. Several more medium term projects are also in place to increase operational efficiencies and to reduce costs. Projects are assessed to achieve a cash payback within two years.

Total operating expenses rose from £236.1m to £281.5m and like-for-like operating expenses grew by £14.5m. As a percentage of revenues, operating expenses increased to 10.0% (2016: 9.7%). Following four years of reduction from 11.1% in 2012, this ratio increased in the first half of the year due to:

- Increased investment in used car marketing to step change the effectiveness of the Group's on-line and off-line reach.
- Increased investment in customer facing colleagues, both in dealerships and centralised activities, following several years of growth in vehicle sales and reflecting higher activity levels, particularly in service.
- Increased property related costs such as increased depreciation on redeveloped and larger dealerships and higher business rates.

Managing Operating Expenses (continued)

This key ratio improved year on year in the second half of the year and it is a key objective of management to ensure as much discipline is placed on controlling cost as effort placed on growing revenue and margin. This is particularly important given the ongoing cost pressures facing UK retailers from Government actions, including the apprenticeship levy, minimum wage increases and business rates re-valuations.

It is also self-evident that the Board's focus upon improving or removing poor performing dealerships outlined above also has the effect of improving the ratio of operating expenses to revenue and overall operating margins.

Interest Charges

Net finance costs in the period increased to £2.3m (2016: £1.2m) due to higher stocking interest payable on new vehicle funding facilities. As the new retail market softened, the Group temporarily saw increased new vehicle inventory levels, both in interest-bearing consignment and fully paid inventories funded by the Group. These trends in inventory have now reversed and new inventory levels were at reduced levels year on year at the year end. In addition, the growth of the Group has also resulted in more exposure to premium franchises where new vehicle funding costs are more prevalent as part of the business model.

	Year ended 28 February 2017	Year ended 29 February 2016
	£'m	£'m
Bank interest payable	0.9	0.6
Other finance costs	-	0.4
New vehicle stocking interest expense	1.6	0.4
Pension fund: net interest income	(0.2)	(0.2)
	2.3	**1.2**

Managing Pension Costs

The Bristol Street defined benefit pension scheme has been operated by the Group for several years. This scheme is closed to future membership and accrual, and during the Period the Group made cash contributions of £0.4m (2016: £0.4m).

On 1 October 2015 the Group acquired the SHG Pension Scheme, also a defined benefit scheme, and on 27 February 2017 the two schemes were merged to reduce administration costs. The merged scheme showed a surplus as at 28 February 2017 of £1.9m (2016: combined surplus £6.1m). The fall in the surplus is largely due to the reduction in the discount rate applied to the scheme liabilities which has reduced by 115 basis points. During the current year the Group's cash contributions to the merged scheme will remain at £0.4m.

Managing Tax Payments

Taxation represents one of the single biggest costs to the Group. In the Period the Group paid £5.7m in corporation tax, £16.6m in Employers' National Insurance Contribution and £8.7m in business rates. These three taxes alone total £31.0m.

Through its tax strategy the Group seeks to pay its fair share of tax in compliance with UK legislation. The Group does not engage in any aggressive tax planning and the Group is classified by HMRC as 'low risk'. Within this context, the effective rate of tax for the year was 19.5% (2016: 20.3%). The current year rate is slightly below the standard UK corporation tax rate for the Period and the Board expects that the Group's tax rate should remain close to the headline UK Corporation Tax rate in the future as this rate declines to 17% by 2020.

Managing Working Capital

The Group has significant levels of working capital in the form of inventory, receivables and payables. These are subject to significant, yet predictable, seasonal fluctuations which coincide with plate change months and quarterly Manufacturer new car campaigns. In addition, Manufacturer new vehicle supply levels and financing changes can also impact working capital patterns over time. It is vital to maintain control of working capital in order to minimise potential write-offs and to allow the Group to deliver sustainable growth in cashflow. The Group has a major focus on managing working capital comprising daily reporting, weekly meetings at all dealerships and weekly group reporting and commentary to the CEO Committee. Finance teams are tasked on driving working capital down through process efficiency in areas such as invoicing and cash collection. Such process efficiency is monitored daily at dealership level.

The Group has continued to achieve a strong cash conversion, generating cash from operating activities of £58.1m from an operating profit of £32.1m. This represents an excellent cash conversion of 181%. This was supported by £16.0m generated from working capital, comprising lower inventories (£2m), lower receivables (£1m), higher warranty and service plan receipts (£3m), higher vehicle deposits (£4m), higher accruals (£3m) and lower VAT receivable (£3m).

Investing to Support Future Cash Generation

Since 1 March 2016, the Group has continued to invest in its growth strategy and has added 10 sales outlets including six representing Premium franchises. In the same period, the Group ceased operations in 11 sales outlets in line with the strategy to ensure the dealership portfolio maximises long run cash profits. At the date of this report the Group operates 124 sales outlets from 104 locations, highlighting an element of multi-franchising at several of the Group's locations.

The Group, in common with most sector participants, is in the process of a major programme of capital investment; developing new dealerships, increasing capacity in existing dealerships and responding to Manufacturer Partner-led refurbishments of the existing dealership portfolio to meet enhanced franchised standards. In particular, substantial sums are being invested in increasing capacity and enhancing the retail environment of the Jaguar Land Rover dealerships with the implementation of the 'Arch' concept.

This programme of capital additions during the Period, along with the anticipated spend in future periods, is set out below:

	FY 2016 £m	FY 2017 £m	FY 2018 £m	FY 2019 £m
New dealership development projects				
– Purchase of land and buildings	6.3	2.2	2.2	-
– New dealership investment	1.8	10.4	6.5	4.0
Existing dealership capacity increases	4.5	5.9	18.9	10.3
Manufacturer-led refurbishment projects	3.2	2.4	5.2	1.7
IT and plant replacement	4.9	4.8	4.7	4.8
	20.7	25.7	37.5	20.8

During the Period the main projects in the new dealership investment category were the opening of major new city centre freehold dealerships for Jaguar Land Rover in Leeds and Nissan in Glasgow. These investments represent substantial increases in aftersales and sales capacity on the previous outlets. Both of these major projects, managed by the Group's in-house team of project managers and surveyors were delivered on time and on budget. In addition, major redevelopments were also completed at Hereford Audi, the creation of a Ford Store in Gloucester and the redevelopment of Nottingham Volkswagen North.

Investing to Support Future Cash Generation (continued)

In the year ending 28 February 2018, major projects are anticipated to increase existing dealership capacity. These will include redevelopments of Reading Mercedes-Benz, Nelson Land Rover, Bradford Jaguar Land Rover, Guiseley Land Rover, Shirley Ford and Bolton Ford. These developments will underpin the Group's future profitability and cash generation and all will represent operations with greater capacity for sales and service.

The Board is confident that the significant decline in future capital spend anticipated in FY2019 will drive enhanced free cash flow from the business from that point in time with the Group having a well-invested dealership estate including over 50% being freehold in nature.

The above table does not include any proceeds from the sale of property. As at the date of this report the Group is actively engaged in the marketing of freehold assets which are expected to realise at least £7 million in due course. The management of the Group's property portfolio to maximise cash returns from surplus assets is an important driver of both cash flows to the Group over time and ensuring appropriate capital allocation. The Board balance the need to recycle surplus assets into cash as quickly as possible with the requirement to maximise the ultimate cash generation from taking advantage of planning consents. Surplus assets arise from the 'pruning' of poor performing dealerships, the relocation of businesses and the sale of surplus land acquired in the development of new dealerships. The importance of property arrangements within an automotive retail business should not be understated. The Property Committee, chaired by the CEO and containing external advisors, meets monthly to formally review and manage the Group's property portfolio.

Capital Structure

The Group has an ungeared balance sheet with shareholders' funds of £246.4m (2016: £197.9m), representing net assets per share of 62.3p (2016: 58.0p) as at 28 February 2017. The Group has tangible net assets of £156.1m (2016: £130.6m) and the balance sheet is underpinned by a freehold and long leasehold property portfolio of £182.0m (2016: £137.7m). The Board believes that a strong balance sheet backed by property assets used in the business, and where debt taken on is long term in nature rather than short term, is in the interests of the owners. This approach reduces the Group's exposure to interest rate and rent increases and makes the business highly resilient in the event of a downturn in activity.

The Board continues to seek to balance those dealerships in freehold and leasehold premises and to adopt a conservative approach to the terms of any leases, favouring lease breaks to provide flexibility and open market value rent reviews to manage rent increase risks. As at 28 February 2017, freehold locations represented 53% of locations (2016: 51%).

The Group finances its operations by a mixture of shareholders' equity, bank borrowings and trade credit from suppliers and Manufacturer partners. On 31 March 2016, the Group undertook a £35m (gross) equity placing to provide funds for further acquisitions and the funds have been deployed as envisaged at the time of the Placing.

On 27 February 2017 the Group established a five year acquisition facility with Barclays Bank plc and Royal Bank of Scotland plc which provides the Group with £40m of committed borrowing capacity with the potential to add a further £30 million which is currently uncommitted. £10 million of this facility was drawn as at 28 February 2017. Interest is payable on this facility at LIBOR plus a rate between 1.3% and 2.1% depending upon the ratio of net debt to EBITDA. The Board believes that the current funding structure is highly conservative. The Board further believes that use of these additional debt facilities on appropriate acquisitions, which meet the required investment hurdles, would be beneficial in enhancing return on equity and increasing cash profits.

During the period, the Group comfortably complied with all of the financial covenants in respect of its borrowing facilities, which include net debt to EBITDA and interest and lease costs to EBITDAR.

Capital Structure (continued)

The Group operated with cash balances for much of the year and additional facilities are utilised to fund significant peak working capital requirements following plate change months and quarter ends. The Group has £68m of overdraft and other money market facilities. On the overdraft, interest was paid on drawn amounts at 1.1% above Base Rate, and on the money market facilities interest was paid at 1.1% above LIBOR. As at 28 February 2017, the Group had cash balances of £39.8m (2016: £43.9m) and, as a consequence, net cash of £21.0m (2016: net cash £23.1m). The cash position at 28 February 2017 reflects the seasonal reduction in working capital, typical of the industry, which arises at the month end prior to a plate change month. Consequently, the year-end cash position is higher than the normalised cash balances throughout the remainder of the year by approximately £30m.

The net cash position shown above is stated net of £8.7m (2016: £6.8m) of utilised used car stocking loans. These loans with third party banks are subject to interest at 1.5% above LIBOR and are secured on the related vehicles. These facilities are short term in nature and can be called to be repaid on demand. As a consequence, these facilities are not extensively utilised to fund long term assets.

Dividends

Since the Group commenced payment of dividends to its owners in 2011, during that six year period, over £17.3m has been returned to the owners of the business, with the dividend per share increasing by 280% over the same period. While still maintaining one of the strongest balance sheets in the listed automotive retail sector, the dividend has been funded from cash generated from operations, without any negative impact to ongoing capital expenditure programme nor funding of suitable acquisitions.

Maintaining a strong balance sheet is a key element of the Board's approach to capital management, with a stated policy of moving dividend cover closer to four times. The Board has proposed an increase in the final dividend for 2017, payable on 31 July 2017, to 0.9 pence per share (2016: 0.85), which, when taken together with the interim dividend paid in January 2017 of 0.5 pence per share (2016: 0.45p), provides a total dividend for the year of 1.40 pence per share (2016: 1.30p). This represents an increase of 7.7% and a dividend cover of 4.7 times (2016: 4.9 times) based upon adjusted earnings per share. The ex-dividend date will be 29 June 2017 and the associated record date 30 June 2017.

The proposed full year dividend of 1.40 pence represents an annualised cash dividend of £5.5m (2016: £4.9m). The distributable reserves in the parent company balance sheet as at 28 February 2017 were £58.9m (2016: £43.8m). At this level of pay-out the Board does not consider there to be any significant risks to the Group's ability to continue to pay dividends in accordance with this pay-out strategy other than those risks listed in the annual report.

Return on Equity

The Group's post-tax return on equity (measured as a 12 month average throughout the Period) was 10.8% (2016 : 11.4%). This dilution resulted from the use of the cash raised from the equity raise in March 2016 to fund the acquisition of the freehold property-rich premium dealerships. While these acquisitions have strengthened the Group's property and brand portfolios, the Board is cognisant of the impact of equity returns, and intends to utilise the new debt facilities to finance future acquisitions, hence improving equity returns.

Strategic Report (continued)

Free Cashflow to Equity

The Board regularly measures the long term free cashflow (operating cashflow less interest, capital expenditure and tax, before acquisitions and dividends) as a return on the shareholders' cash invested capital (capital raised plus after-tax operating profits less dividends). This measure, when compared to the cost of capital, provides an indication of the extent to which cash, hence value, is being created in the long term. This measure stands at 12.1% over the 10 years since the Group's formation (2016: 12.7% over 9 years). This return compares favourably to the Group's weighted average cost of capital of 8%. The reduction in the recent Period indicated above is a result of the high level of cash deployed on capital investment in the Period. As set out above, we expect this level of capital investment to increase in the current financial year before declining in 2019, when the free cashflow to equity metric should begin to increase.

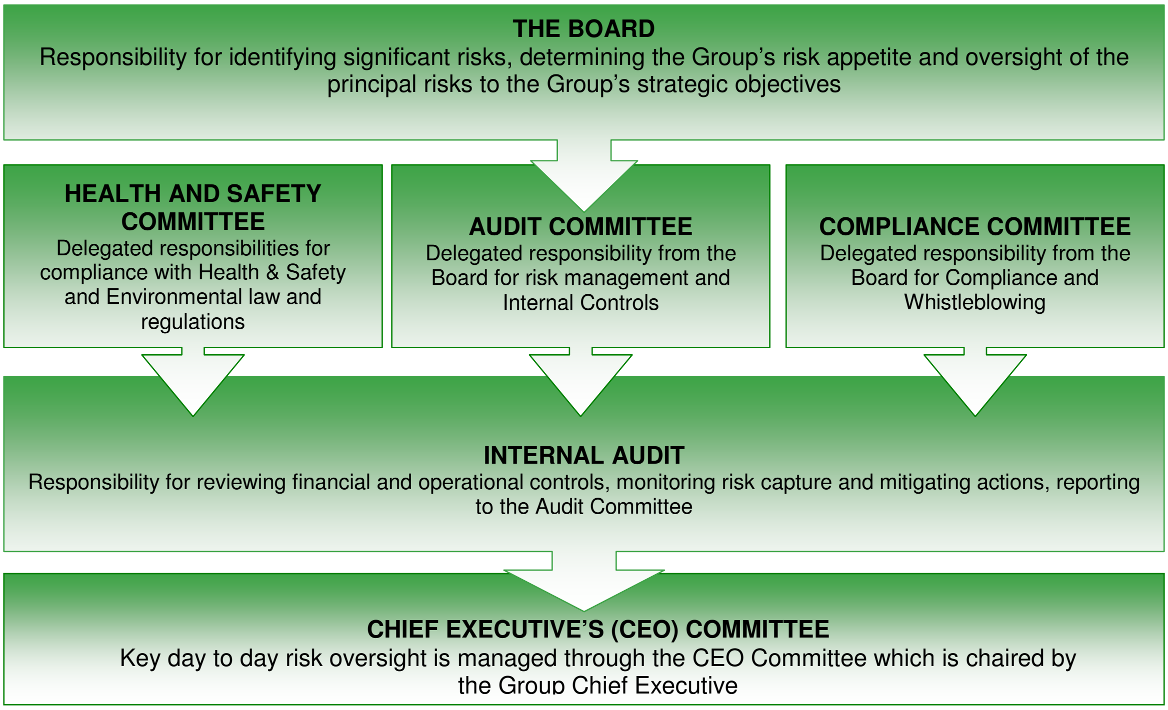
Key Performance Indicators

The Group has a number of Key Performance Indicators ("KPI's") by which it monitors its business. These include sales and gross margins by channel; an analysis of these KPI's is set out on pages 10 and 11, together with the below:

	KPI	Definition	Performance	Risk Factor Link
Financial KPIs	Adjusted EPS	Adjusted profit after tax divided by weighted average number of shares	FY17 – Adjusted EPS of 6.54p FY16 – Adjusted EPS of 6.46p 1.2% increase despite issue of new equity during the year.	1 2 3 4 5 6 7 8 9 10 11 12 13 14
Financial KPIs	Adjusted PBT	Profit before tax, amortisation and share based payments charge	FY17 – Adjusted PBT £31.5m FY16 – Adjusted PBT £27.4m Improvement of 15% year on year	1 2 3 4 5 6 7 8 9 10 11 12 13 14
Financial KPIs	Operating Margin by channel	Operating profit divided by revenue by channel	See pages 10 and 11	2 3 4 5 6 9 14
Strategic / Operational KPIs	Like for Like Used Volume growth	Number of used vehicles sold in dealerships with comparable trading periods in two consecutive years	FY17 – growth of 7.1% FY16 – growth of 8.0%	2 3 5 6 9 12 13
Strategic / Operational KPIs	Like for Like New Retail volume compared to UK private registrations	Number of new retail vehicles sold in dealerships with comparable trading periods in two consecutive years compared to the movement in UK private registrations	**Group** FY17 – decline of (6.4%) FY16 – growth of 4.0% **UK private registrations** FY17 – decline of (1.0%) FY16 – growth of 3.9%	2 3 5 9 12 14
Strategic / Operational KPIs	Like for Like Service Revenue growth	Retail labour sales activity direct to consumers for the servicing and repair of motor vehicles in dealerships with comparable trading periods in two consecutive years	FY17 – Retail growth 5.8% FY16 – Retail growth 6.5%	2 6 8 9
Strategic / Operational KPIs	Online Growth	Website visits to all group trading websites	FY17 – 11.1m visitors FY16 – 9.1m visitors Improvement of 22.0% year on year	2 3 7 9 10 11
Strategic / Operational KPIs	Customer Service	Customer service is measured via email survey responses from customers gathered by our manufacturer partners for new vehicles or on Judge Service for used vehicles	96% (FY16 95%) of our used vehicle customers would recommend us – Judge Service	4 7 8 9

Strategic Report (continued)

Risk Management Process



Financial and Business Reporting

The Board is responsible for presenting a fair, balanced and understandable assessment of the Group's position and prospects. A statement of the Directors' responsibilities for preparing the Annual Report and financial statements is set out on pages 35 and 36. The statement by the auditors about their reporting responsibilities is given on page 58.

Risk Management and Internal Controls

The Board is responsible for establishing and maintaining adequate internal controls over regular financial reporting for the Group, including the consolidation process. There is a comprehensive system of internal controls in place, including the Annual Business Plan ("Plan") which is reviewed and approved by the Board. Monthly actual results are reviewed by management against both the Plan and prior year results. All data to be consolidated in the Group's financial statements is reviewed thoroughly by management to ensure that it complies with relevant accounting policies and the financial reporting presents a true and fair reflection of the financial performance and position of the Group.

The Board has overall responsibility for risk management and is advised of key risks facing the Group on a regular basis with a formal review of the most significant risks annually, or more frequently if required. 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 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 Board regularly reviews the risks to which the Group is exposed, as well as the operation and effectiveness of the system of internal controls.

The day to day responsibility for compliance and certain regulatory activities has been delegated to the Compliance Committee. This includes the Group's compliance with regulation under the requirements of the Financial Conduct Authority (FCA), the Advertising Standards Authority, the Trading Standards Institute, the Data Protection Act and all other applicable regulations.

Oversight of health and safety and environmental regulatory risk is delegated to the Health and Safety Committee.

Risk Management and Internal Controls (continued)

The Board's approach involves identification of material 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 considered necessary, specialist advice is sought from external agencies and professional advisers.

Principal Risks and Uncertainties

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

STRATEGY

	Description of risk	Impact	Mitigation
1	Failure to deliver on the strategic goal of the Group to acquire and consolidate UK motor retail businesses	Stalled growth of the Group and associated shareholder returns Reputation risk	• Maintain strong relationships with manufacturer partners to ensure that the Group remains a valued and relevant candidate for any potential franchised network development opportunities • Availability of resources to fund expansion ensured through both committed bank facilities and positive cash generation within the Group • Thorough reviews of acquisition opportunities to ensure Group investment hurdles are met • Established process for swift integration of acquired businesses into the Group
2	Failure to meet competitive challenges to our business model or sector	Loss of customers to competitors Reduced profitability	• The Group's scale, technological capability and diversification creates the ability to capitalise on market opportunity • Customer experience focus of the Group attracts customer loyalty • Ongoing monitoring to identify emerging competitive threats and act on these quickly
3	Advances in vehicle technology provide customers with mobility solutions which bypass the dealer network	Business model becomes obsolete	• Maintain strong relationships with manufacturer partners to work closely with them as the future shape of the sector evolves • Establish sufficient scale with manufacturer partners to ensure the Group is a key part of their route to market • Provide manufacturer partners with excellent retail facilities and customers with excellent services, to ensure Group is successful in the event of significant industry consolidation

BRAND PARTNERS AND REPUTATION

	Description of risk	Impact	Mitigation
4	Inability to maintain current high quality relationships with manufacturer partners	Impact on our ability to retain existing contracts and to take on new opportunities for growth	• Group vision and values set the tone from the top to deliver strong service to our Group stakeholders • Constant focus on improvement in performance and effective communication with our manufacturer partners to ensure that our objectives are closely matched to theirs

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

ECONOMIC, POLITICAL AND ENVIRONMENTAL

	Description of risk	Impact	Mitigation
5	Economic conditions, including the potential consequences of the UK decision to leave the EU, impacting trading	Volume and margin are effected particularly in vehicle sales	• Close monitoring of UK and European economic conditions • Maintain close relationships with manufacturer partners • Focus on retention initiatives particularly in aftersales
6	Market may drive fluctuation in used vehicle values	Used vehicle margin is effected and value of used vehicle inventory may decline	• Daily monitoring of used vehicle market to detect pricing movements • Real time inventory management and control to enable the Group to react quickly to pricing declines

LEGAL AND REGULATORY

	Description of risk	Impact	Mitigation
7	Litigation and regulatory risk in an environment of ever increasing regulatory scrutiny	Litigation or breaching regulations could have a financial impact or reputational impact	• Policies and procedures are in place to ensure compliance with relevant regulations, adherence to which is overseen by the Compliance Committee • Risk management programme in place aimed at preventing issues in the first instance but also providing appropriate response to any issues that do arise • Continuation of Group focus on customer experience and a partnership approach with its manufacturer partners, to minimise impact of Block Exemption regulation changes
8	Failure to comply with Health and Safety (H&S) Policy	Injury to customers or colleagues	• Group has a dedicated H&S Manager • Group H&S Committee monitors compliance and recommends any corrective or preventative actions • Training for all colleagues • Specific H&S dashboard developed, monitoring KPI's • Independent external H&S audits carried out

PEOPLE

	Description of risk	Impact	Mitigation
9	Failure to attract, develop and retain talent	Unable to deliver on business plans Colleagues who lack motivation and engagement	• Annual colleague satisfaction survey and action planning based upon the results • Significant investment in formalised training and development programmes delivered by in-house training department and external trainers as appropriate • Talent review and succession plans in place

Strategic Report (continued)

Principal Risks and Uncertainties (continued)

	SYSTEMS AND TECHNOLOGY		
	Description of risk	**Impact**	**Mitigation**
10	Failure of Group Information or telecommunication systems	Business is interrupted	• Robust business continuity process has been developed • Operation of this process is regularly tested, reviewed and updated as necessary
11	Group is targeted for malicious cyber attack	Business is interrupted Dated is compromised	• Robust business continuity process has been developed • Policy prohibits installation of non-Group software • Firewall and anti-virus protocols active and reviewed regularly • Penetration and vulnerability testing reviewed regularly to assess new threats

	FINANCE AND TREASURY		
	Description of risk	**Impact**	**Mitigation**
12	Availability of credit and vehicle financing	Inability to secure funding impacting on distribution sales or expansion opportunities	• Detailed working capital cash flow monitoring in place • Maintain relationships with key banks, financing arrangements in place until 27 February 2022 • Leverage Group relationship with OEM finance companies and retail finance providers
13	Use of estimates	Variance in accounting judgement impacts profitability	• Key accounting judgements are reviewed on a regular basis to ensure these remain appropriate • Regular review of changes in accounting standards framework to assess any likely impact on the Group
14	Currency risk	Fluctuation in exchange rates impact the profitability of our manufacturer partners which may change their prices or support packages to the dealer network	• Portfolio of manufacturer partners spreads potential risk • No material foreign exchange transactions are undertaken directly by the Group

Financial Position and Performance

A comprehensive analysis of the business during the year and the position at the year end is contained within this Strategic Report.

Viability Statement

Assessment of Prospects

The Group's business model and strategy are central to an understanding of its prospects. The Group's strategy is to grow a scaled automotive retail group in both volume and premium motor retail franchises, by acquisition or organic growth through enhanced performance. Further details of the Group's strategy can be found on pages 5 and 6 of the Strategic Report. The nature of the Group's activities is long-term and the business model is open-ended. The group's current overall strategy has been in place since flotation in 2006, subject to the ongoing monitoring and development described below.

Decisions relating to acquisitions and significant investment in dealership locations are made by reference to both consideration of balance within the existing Group's portfolio and the projects' expected achievement, within a three to five year time frame, of a range of financial metrics including target EV/EBITDA ratios, IRR and ROCE.

The Assessment Process and Key Assumptions

The Group's prospects are assessed primarily through its strategic planning process. This process includes a detailed annual business plan review, led by the CEO through the Chief Executive's Committee.

The Board participates fully in the annual process through both the review and approval of the annual business plan and through annual strategic reviews. Part of the Board's role is to consider whether the plan continues to take appropriate account of the external environment including macroeconomic, political, social and technological changes. The output of the annual review process is an analysis of the risks that could prevent the plan from being delivered and financial forecasts highlighting the impact of the strategic plan. The latest updates to the strategic plan were finalised in February 2017 following this year's review.

This considered the Group's current position and the development of the business as a whole, and the Board assessed the viability of the Company over the three year period to 29 February 2020.

The Directors believe that a three year period is appropriate as the Group's financial forecasting accompanies this period.

Financial forecasts were prepared for the three year period to 29 February 2020, so that two years nine months remains at the time of approval of this year's annual report. The first year of the financial forecasts comprised of the Group's detailed business plan. Years two and three of the forecasts are extrapolated from the first year, based on the overall content of the strategic plan.

The key assumptions in the financial forecasts, include:

- The core group with no acquisitive growth beyond a known pipeline, reflecting the Strategic and Brand Partners principal risks set out on page 21 of the Strategic Report.
- Prudent growth assumptions in both volume and margin, reflecting the risks set out on pages 21 to 23 of the Strategic Report.

The Board carried out a robust assessment of the principal risks facing the Group and the purpose of the principal risks on pages 21 to 23 is primarily to summarise those matters that could prevent the Group from delivering on its strategy. A number of other aspects of the principal risks, because of their nature or potential impact, could also threaten the Group's ability to continue in business in its current form if they were to occur. This was considered as part of the assessment of the Group's viability, as explained below.

Viability Statement (continued)

Assessment of Viability

Although the strategic plan reflects the Directors' estimate of the future prospects of the business, the Board has also considered the potential impact on the Group of a number of scenarios over and above those included in the plan, that would represent serious threats to its liquidity. The principal risks and mitigation steps that the Board considered as part of this viability assessment are set out in pages 21 to 23 of the Strategic Report. The Group also mitigates the principal risks it faces through the diverse revenue generation from all parts of the vehicle cycle, range of franchise representation and investment in complementary business streams together with regular monitoring to identify change quickly. The Board believes that the Group is well placed to manage its business risk successfully.

Based on their assessment of prospects and viability as set out above, the Directors confirm that they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the three year period ending 29 February 2020.

Going Concern

The Directors also considered it appropriate to prepare the financial statements on the going concern basis, as explained in the Basis of Preparation paragraph in note 1 to the Consolidated Financial Statements.

Robert Forrester	Michael Sherwin
Chief Executive Officer	Chief Financial Officer
10 May 2017	10 May 2017

Main Board Directors

The Board currently comprises the Directors outlined below.

Peter Jones – Non-Executive Chairman

Peter (60) has extensive industry background including his joint ownership of the successful independent motor group Bramall and Jones Ltd; Commercial Director at Inchcape Retail; CEO of C.D. Bramall plc and Commercial Director of Rover Cars UK & Ireland. From 2008 to 2013, Peter served as an Executive Director of Lookers plc including the CEO role from October 2009 to the end of December 2013.

William Teasdale – Non-Executive Director

Bill (74) is a Non-Executive Director of a number of private companies including British Engines Limited and Bedmax Limited. He was Non-Executive Director and Chairman of the Audit Committee at Reg Vardy plc between 2002 and 2006. Prior to this, he was the Senior Partner at the Newcastle upon Tyne office of PricewaterhouseCoopers LLP. Bill has substantial experience of corporate transactions and within the quoted company environment.

Ken Lever – Non-Executive Director

Ken (63) is a former partner of Arthur Andersen and has held senior executive director roles in many listed companies including Alfred McAlpine plc, Albright & Wilson plc and Tomkins plc. Ken was CFO of Numonyx in Switzerland from April 2008 to September 2010, and was CEO of Xchanging plc from June 2011 until December 2015. Ken is also a Non-Executive Director of Gresham House Strategic plc, Blue Prism plc, FM Insurance Company Limited, Biffa plc and DAC Beachcroft LLP and is Non-Executive Chairman of RPS Group plc. From 2007 to 2013, Ken was a Member of the Accounting Council of the Financial Reporting Council (formerly the UK Accounting Standards Board).

Pauline Best – Non-Executive Director

Pauline (53) is an experienced Human Resources professional who is currently the Global People and Organisation Director of Specsavers and whose previous roles include Global Leadership and People Capability Director for Vodafone and Human Resources Director of Talkland.

Nigel Stead - Non-Executive Director

Nigel (67) was previously CEO of Lex Autolease, the UK's largest contract hire and leasing group and a Director of the British Vehicle Rental and Leasing Association. He has also been a Non-Executive Director of Motability Operations Group plc, APD Global Research Limited and Universal Salvage plc. Nigel is currently a Non-Executive Director of Prohire plc and Merrion Fleet Management Limited.

Robert Forrester – Chief Executive

Robert (47) was a Director of Reg Vardy plc between 2001 and 2006 where he held the roles of Finance Director and Managing Director. Robert qualified as a chartered accountant with Arthur Andersen. He is also a member of the Economic Growth Board of the Confederation of British Industry.

Michael Sherwin – Chief Financial Officer

Michael (58) has extensive retail, transactional and public market experience. From 1999 to 2008, Michael was Group Finance Director of Games Workshop Group PLC, a FTSE listed consumer goods company. Michael is a qualified Chartered Accountant having trained with Price Waterhouse, where he held positions in the UK, Paris and Sydney. He was also Non-Executive Director of Plusnet plc, an AIM listed internet business, from 2004-2007.

Advisors

Nominated Advisor and Broker

Canaccord Genuity Limited
88 Wood Street
London
EC2V 7QR

Broker

Zeus Capital Limited
82 King Street
Manchester
M2 4WQ

Solicitors

Bond Dickinson LLP
St Ann's Wharf
112 Quayside
Newcastle upon Tyne
NE1 3DX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

Tax Advisors

Deloitte LLP
One Trinity Gardens
Broad Chare
Newcastle upon Tyne
NE1 2HF

Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Financial PR Advisors

Camarco
107 Cheapside
London
EC2V 6DN

Company Secretary

Karen Anderson

Registered office

Vertu Motors plc
Vertu House
Fifth Avenue Business Park
Team Valley
Gateshead
NE11 0XA

Corporate and Social Responsibility Report

Introduction

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

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

1. Health and Safety

A consistent Group-wide approach is taken with regards to Health and Safety and environmental matters. A Health and Safety Committee, now chaired by the CEO, meets monthly to consider all aspects of our Health and Safety performance, including reviewing any incidents, and considering how to spread best practice across the Group. All line managers receive comprehensive, externally provided training to ensure they understand relevant legislation and the scope of their responsibility in this critical area. There are clear lines of responsibility which are communicated to all colleagues. The General Manager is the main responsible individual at each dealership for all Health and Safety matters supported by a dealership Health and Safety Co-ordinator. A Group Health and Safety Manager is responsible for monitoring compliance with Health and Safety systems and providing support and advice to the General Managers, as well as continually assessing the quality of our systems, outputs and recommending improvements. The Health and Safety Committee also reports monthly to the Board, and key findings are communicated regularly to Senior and General Managers to retain a focus on Health and Safety matters.

This year has seen significant further progress in the management of Health and Safety within the Group. Our Health and Safety Dashboard, which focuses on key risk areas within the Dealerships, has become a cornerstone of our processes with consistent reporting on any shortfalls being provided to the Board. This has allowed us to quickly identify any locations where the required level of concentration on this critical area is falling short and allows us to generate corrective actions.

In order to manage the Health and Safety risk involved in driving we have implemented telematics devices into the cars of our younger drivers as they were identified as our largest risk population, and this system gives us real time reporting on driver behaviour. The resultant change in driver behaviour has had a positive impact on the number of at fault accidents we have suffered in the year.

During the year, each location has had an independent external audit to assess adherence to our Health and Safety Operating System. The results of these audits have been encouraging with most Dealerships scoring very highly, and only a small number of failed audits which resulted in immediate corrective action. The audit output has also provided a list of improvements to be addressed at each dealership and attending to these will again raise the bar on delivering a safe environment for Customers and Colleagues. This audit process will now be repeated annually as an independent check of our process strength.

2. Environmental Management

- Responsible Sourcing

All of the Group's business locations are situated within the UK and operate in strict compliance with all applicable labour relations laws. We have no presence, either directly or via sub-contractors, in any areas which present a material risk of the exploitation of men, women or children in the workplace. We work with vehicle manufacturers and other suppliers who manage their supply chains in a responsible way. The Group's modern slavery statement has been published on the Group's website.

2. Environmental Management (continued)

- Reducing Carbon and Waste

The Group's strategy on environmental matters is to ensure legal and regulatory compliance as well as seeking to manage costs through effective resource allocation. During the year, the Group complied with the Energy Savings Opportunity Scheme Regulations 2014 ('ESOS') to undertake a mandatory energy assessment of our sites. We used the results of this assessment to identify further energy saving opportunities and to encourage best practice throughout the Group.

During the year, we have continued to assess, monitor and manage our energy use. Also where practicable, we have implemented measures designed to reduce our activities' environmental impact, which, over time, we anticipate will help reduce our carbon footprint. To conserve energy, we continue to install LED lighting schemes, fix luminair and movement sensors, limit the duration of periods when full lighting is used on our sites out of hours, keep external doors closed when not in use and fit suitable insulation to limit the escape of heat.

3. Colleagues

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

- Values
  - **Passion**

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

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

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

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

3. Colleagues (continued)

- Employment Policies

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

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

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

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

The Group pays attractive salaries and additional benefits to dedicated people. The Group is keen to ensure that colleagues prepare for retirement and offer a Group Personal Pension arrangement with varying levels of employer contribution based on seniority, in addition to a default auto-enrolment pension scheme into which all qualifying colleagues are enrolled if they choose not to opt out. The Group encourages colleagues to become shareholders in the Company through participation in the Group's share schemes; including an all-colleague Share Incentive Plan. The Group also offers private health and life insurance to senior management colleagues as well as a reward platform, childcare voucher and cycle to work scheme which are open to all colleagues.

Number of Group colleagues by gender:

	At 28 February 2017			At 29 February 2016		
	Female	Male	Total	Female	Male	Total
Directors	1	6	7	-	6	6
Senior Managers	6	45	51	5	44	49
All Colleagues	1,305	3,911	5,216	1,180	3,483	4,663

- Communication

The Group is committed to providing colleagues with information on matters of interest to them on a regular basis. Individual achievement is recognised publicly and privately to reinforce behaviours in line with the Group's Values and Mission Statement. 'Working together' is vital when developing a successful team and at the very heart of this is good communication. The Group utilises many formal and informal channels to achieve this. For example, the Chief Executive produces a blog several times a week and regular news updates are posted onto a Group wide intranet site. Additionally, the Group produces printed newsletters, which feature good news stories from colleagues working across the Group's network of dealerships. Each General Manager undertakes a monthly Team Brief, updating colleagues in small groups on relevant issues impacting the Group and the dealership. These meetings seek to reinforce the Group's values and contribute to the creation of a Group culture.

3. Colleagues (continued)

- Communication (continued)

The Group operates several award schemes covering all colleagues. These schemes are intended to recognise and reward talented and committed individuals throughout the Group. One such scheme is the CEO Awards, which are announced each December and see a number of managers recognised for their outstanding performance. The Group also operates 'The Masters' Club Awards', whereby a number of high performing non-management colleagues from across the Group are recognised for their individual performance. The recipients range from sales executives, service advisors and technicians to drivers, cleaners, valeters and receptionists with a category to cover every dealership based colleague. The Group recognises colleagues with long service, with specific recognition for those reaching 10 and 20 years within the Group. These award programmes are designed to reward and reinforce behaviours underpinning both Group financial performance and other strategic objectives including the delivery of an outstanding customer experience.

4. Vertu in the Community

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

- Charity Support

The Group is proud to work with a diverse and broad range of national charities and local projects. In the last two years the Group has raised more than £55,000 for Children in Need. This year the Group also supported BEN (Motor and Allied Trades Benevolent Fund), a not-for-profit organisation that partners with the automotive industry to provide life-long support to its people and their families.

- Community Support

As the Group has expanded, so has the scope of its involvement in the community as part of our wider corporate and social responsibility strategy. The projects chosen for support reflect the diversity and depth within the business, and also the desire of colleagues to be an active part of the communities served by their dealership. Across the country, the dealerships support a range of local charities, including St Oswald's Hospice in Newcastle and Radio Clyde's Cash for Kids in Glasgow.

In the local community, the dealerships also support a range of sporting and recreational initiatives including Dunston Silver Band, Newcastle Eagles Basketball Club, Northampton Town Football Club Academy plus a variety of youth sports clubs and emerging individual talent across the country.

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 2017.

Principal Activities

The principal activity of the Group is the sale of new cars, motorcycles and commercial vehicles and used vehicles, together with related aftersales 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 Strategic Report. This includes details of acquisitions and likely future developments. It remains your Board's intention to deliver shareholder value and develop the Group through strategic acquisitions supplemented by the focused organic growth of its existing businesses.

The UK market for the sale and servicing of motor vehicles is well developed and represents all of the major global vehicle manufacturers. The UK consumer has consistently demonstrated its demand for vehicles evidenced by the relatively short vehicle change cycle in this country. The vehicle retail market in the UK, however, remains highly fragmented with the Top 10 groups representing just 21% of all outlets and in the year ended 29 February 2016 the Group had just a 3.4% share of UK private car registrations. These market dynamics support the Group's strategy of growth through both acquisition and organic improvement.

Results and Dividends

The results for the year are set out in the consolidated income statement on page 59. The Group's profit from ordinary activities after taxation for the year was £24,020,000 (2016: £20,680,000).

The dividend paid in the year to 28 February 2017 was £5,353,000 (1.35p per share) (2016: £3,923,000 (1.15p per share)). A final dividend in respect of the year ended 28 February 2017 of 0.90p per share, is to be proposed at the annual general meeting on 26 July 2017. The ex-dividend date will be 29 June 2017 and the associated record date 30 June 2017. The dividend will be paid on 31 July 2017, and these financial statements do not reflect this final dividend payable.

Company Number

The registered number of the Company is 05984855.

Business at the Annual General Meeting ("AGM")

At the AGM, a separate shareholders' resolution is proposed for each substantive matter. We will issue to shareholders the Company's annual report and financial statements together with the notice of AGM, giving not less than the requisite period of notice. The notice will set out the resolutions the Directors are proposing and explanatory notes for each. At the AGM, Directors' terms of appointment are available for inspection and, as well as dealing with formal AGM business, the Board takes the opportunity to update shareholders on the company's trading position. The Chairman and each committee chairman are available to answer questions put by shareholders present.

Appointment and Powers of the Company's Directors

Appointment and removal of Directors is governed by the Company's articles of association (the Articles), the UK Corporate Governance Code (the Code), the Companies Acts and related legislation. Subject to the Articles (which shareholders may amend by special resolution), relevant legislation and any directions given by special resolution, the Company and its Group is managed by its board of Directors. By resolutions passed at Company general meetings, the shareholders have authorised the Directors: (i) to allot and issue ordinary shares; and (ii) to make market purchases of the Company's ordinary shares (in practice, exercised only if the Directors expect it to result in an increase in earnings per share). Details of movements in the Company's share capital are given in note 28 to the consolidated financial statements.

Directors' Report (continued)

Directors and Their Interests in Shares

Brief particulars of the Directors are listed on page 26. Further details of the Board composition are contained in the Corporate Governance Report and details of Directors' service contracts are contained in the Remuneration Committee Report. The Directors who served during the year ended 28 February 2017 and up to the date of signing the financial statements were:

P Jones
R T Forrester
M Sherwin
W M Teasdale
N Stead
K Lever
P Best (appointed 1 June 2016)

The Directors retiring at the AGM are M Sherwin, P Jones, and K Lever who, being eligible, each offer themselves for re-election. W M Teasdale will retire from the Board at the 2017 Annual General Meeting and does not offer himself for re-election.

Directors who held office at 28 February 2017 and their respective interests in the Company's issued ordinary share capital are shown in the table below. All holdings shown are beneficial. There is no current policy requiring Directors to hold a minimum number of Company shares.

	28 February 2017 Ordinary Shares	**29 February 2016 Ordinary Shares**
P Jones	1,405,000	1,125,000
R T Forrester	6,925,606	6,632,973
M Sherwin	484,993	364,597
K Lever	40,800	-
W M Teasdale	648,450	616,450
N Stead	80,500	56,500
P Best	-	-

Details of related party transactions, which include transactions between Directors and Group companies, are given in note 34 to the consolidated financial statements.

Indemnities to Directors

In line with market practice and the Company's Articles, each Director has the benefit of an ongoing deed of indemnity from the Company, which includes provisions in relation to duties as a Director of the Company or an associated company, qualifying third party indemnity provisions and protection against derivative actions. Copies of these are available for shareholders' inspection at the AGM.

Share Capital

As at 28 February 2017, the Company's issued share capital comprised a single class: ordinary shares of 10 pence each of which 397,269,839 were in issue. The Articles permit the creation of more than one class of share, but there is currently none other than ordinary shares. Details of the Company's share capital are set out in note 28 to the consolidated financial statement. All issued shares are fully paid. On 1 April 2016 the Company issued 56,000,000 new ordinary shares pursuant to a placing. On 7 July 2016, 2,635,687 shares were purchased by Estera Trust (Jersey) Limited ('Trustee') the trustee of the Company's employee benefit trust. The shares were purchased to be held for the purposes of the trust and may be used to transfer shares to individuals exercising share options in the Company. During the period to 28 February 2017 645,134 of the shares purchased by the trust were transferred to individuals pursuant to exercises of options or sold to satisfy the resulting tax. The Trustee waives its right to dividends on any Company shares held in the trust and such holdings are disclosed within 'Treasury Shares' in the financial statements. 1,990,553 ordinary shares in the Company remained in the trust at 28 February 2017.

The rights and obligations attaching to the Company's ordinary shares are set out in the Articles. The Company is currently authorised to issue up to two-thirds of its current issued share capital pursuant to a resolution passed at its 2016 AGM.

Directors' Report (continued)

Voting Rights, Restrictions on Voting Rights and Deadlines for Voting Rights

Shareholders (other than any who, under the Articles or the terms of the shares they hold, are not entitled to receive such notices) have the right to receive notice of, and to attend and to vote at, all general and (if any) applicable class meetings of the Company. A resolution put to the vote at any general or class meeting is decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is properly demanded. At a general meeting, every member present in person has, upon a show of hands, one vote, and on a poll, every member has one vote for every 10 pence nominal amount of share capital of which they are the holder. In the case of joint holders of a share, the vote of the member whose name stands first in the register of members is accepted to the exclusion of any vote tendered by any other joint holder. Unless the Board decides otherwise, a shareholder may not vote at any general or class meeting or exercise any rights in relation to meetings whilst any amount of money relating to his shares remains outstanding. A member is entitled to appoint a proxy to exercise all or any of their rights to attend, speak and vote on their behalf at a general meeting. Further details regarding voting can be found in the notes to the notice of the AGM. To be effective, electronic and paper proxy appointments and voting instructions must be received by the Company's registrars not later than 48 hours before a general meeting. The Articles may be obtained from Companies House in the UK or upon application to the Company Secretary. Other than those prescribed by applicable law and the Company's procedures for ensuring compliance with it, there are no specific restrictions on the size of a holding nor on the transfer of shares, which are governed by the Articles and prevailing legislation. The Directors are not aware of any agreement between holders of the Company's shares that may result in restrictions on the transfer of securities or the exercise of voting rights. No person has any special rights of control over the Company's share capital.

Contracts

None of the Directors had an interest in any contract with the Group (other than their service agreement or appointment terms and routine purchases of vehicles for their (or their family's) own use) at any time during the financial year to 28 February 2017.

The Company and members of its Group are party to agreements relating to banking, properties, employee share plans and motor vehicle franchises which alter or terminate if the Company or Group Company concerned undergoes a change of control. None is considered significant in terms of its likely impact on the business of the Group as a whole.

Derivatives and Financial Instruments

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

The Group finances its operations by a mixture of shareholders' equity funds and bank borrowings and trade credit from both suppliers and manufacturer partners. To reduce the Group's exposure to movements in interest rates, the Group seeks to ensure that it has an appropriate balance between fixed and floating rate borrowings.

Details of the current borrowing facilities of the Group are given in pages 17 and 18 of the Strategic Report.

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

Directors' Report (continued)

Colleagues

The policies of the Group on equal opportunities, including those of disabled colleagues and colleague involvement, are set out in the Corporate and Social Responsibility Report on pages 28 to 31.

Health and Safety

The policies of the Group on health and safety, as well as goals and controls in place are set out in the Corporate and Social Responsibility Report on pages 28 to 31.

Directors' Statement as to Disclosure of Information to Auditors

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

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

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

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law).

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

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and United Kingdom Accounting Standards, comprising FRS 102, have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Statement of Directors' Responsibilities (continued)

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

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the group and company's performance, business model and strategy.

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

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Michael Sherwin
Chief Financial Officer
10 May 2017

Corporate Governance Report

The UK Corporate Governance Code

This Corporate Governance Report (the 'Report') is intended to give shareholders an understanding of the Group's governance procedures. As an AIM listed Company, Vertu Motors plc does not have to comply with the UK Corporate Governance Code (2014) (the 'Code') published by the Financial Reporting Council. However, the Board embraces the principles of good corporate governance. Although the Group does not choose to voluntarily comply with the Code in full, the Report describes how the relevant principles and provisions set out in the Code were applied to the Company and Group during the financial year and will continue to be relevant for the forthcoming financial year. The Company does not yet comply with all of the Code requirements relating to 'effectiveness', does not produce a separate nomination committee report, and does not yet make available its Committee terms of reference, but complies with all other areas.

Board Composition

Board composition is continually reviewed to ensure that it provides the Group with the strategic oversight, vision and governance that it needs in order to deliver a sustainable long term return for shareholders. It is the Board's intention that going forward, Non-Executive Directors will ordinarily rotate every six years, in line with current corporate governance best practice.

Pauline Best joined the Board on 1 June 2016 as a Non-Executive Director. Pauline is an experienced Human Resources professional who is currently the Global People and Organisation Director of Specsavers and whose previous roles include Global Leadership and People Capability Director for Vodafone and Human Resources Director of Talkland. Pauline's skills are vital to the Group's objectives to attract and retain the best talent as sector growth highlights skill shortages and as new ways of working develop in the digital age.

Bill Teasdale will retire from the Board at the 2017 Annual General Meeting.

During the year under review, the Board was made up of seven members comprising two Executive Directors and five Non-Executive Directors. P Jones, K Lever, P Best and N Stead are considered to be independent, W M Teasdale is not considered to be independent due to his length of service. K Lever is the Senior Independent Director. Details of all Directors can be found on page 26.

The Board and its Committees

The role of the Board is to have responsibility for generating shareholder value over the long term by setting the Group's strategy, ensuring that appropriate resources are available to enable the Group to meet its objectives and monitoring the delivery of those objectives within an effective framework of internal controls. The Board has a defined set of responsibilities which are formalised into a Schedule of Matters Reserved for the Board and these include:

- Strategy and management – responsibility for long-term success of the Company and Group, commercial strategy, and approval of the expansion of the Group through acquisition or any significant disposals
- Financial reporting and controls – review and approval of the annual business plan and capital budget, major capital expenditure projects and any significant changes to these, all trading or results statements and the annual financial statements
- Internal controls – reviewing the effectiveness of internal control processes to support strategy
- Risk – approval of the Group's risk appetite, determining the nature and extent of significant risks the Group is willing to take to achieve its objectives

Executive Management have limits on the decisions delegated to them by the Board.

Corporate Governance Report (continued)

The Board and its Committees (continued)

Key Areas of Board Focus During the Year				
STRATEGY	**FINANCIAL PERFORMANCE**	**GOVERNANCE**	**SHAREHOLDER ENGAGEMENT**	**RISK**
Approval of acquisitions completed during the financial year Group strategy review Business development Reviewing M&A opportunities Approval of annual business plan and capital budget Interim and final dividend	Approval of the FY2016 full year results and FY2017 interim results Monthly management accounts Long range forecast and funding requirement planning	Appointment of P Best as Non-Executive Director Re-appointment of auditors FCA application (for changes of control) Monitoring Compliance and Health and Safety Committees	Annual General Meeting Meetings with key shareholders on results roadshows and during the 2016 equity raise Third party review of Investor Perceptions of the Group	Annual review of key Group risks and mitigating controls

Board Meetings

The Board meetings are structured to allow the Board sufficient time to discuss and review financial performance, achievement of objectives, development of the Group's strategy, operational performance and risk and internal controls. Standing agenda items are discussed at each Board meeting, which include:

- Chief Executive's Report – update on performance, strategic opportunities, property matters and management
- Chief Financial Officer's Report – includes the latest financial information for the Group
- Health and Safety Report – Summary of training undertaken throughout the Group, risk management plus commentary on any reported incidents
- Compliance Report – summary of regulatory developments and minutes of the latest Compliance Committee meeting
- Investor Relations ('IR') Report – update on market trends, share register movements and summary of IR activity
- Risk Matrix – consideration of key strategic risks

Corporate Governance Report (continued)

Committee Responsibilities

The table below shows the key committees and their responsibilities.

	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	CEO COMMITTEE	COMPLIANCE COMMITTEE	HEALTH AND SAFETY COMMITTEE
Members	PLC BOARD COMMITTEES					
	• K Lever (Chair) • W Teasdale • N Stead	• Pauline Best (Chair) • N Stead • P Jones • W Teasdale • K Lever	• P Jones (Chair) • W Teasdale • N Stead • K Lever • P Best	• R T Forrester (Chair) • M Sherwin • 10 Senior Managers	• M Sherwin (Chair) • W Teasdale • 6 Senior Managers	• R T Forrester (Chair) • 3 Senior Managers • H & S Manager
Delegated authorities	• Financial reporting • Financial risk management • Internal control	• Remuneration policy • Incentive plans • Performance targets	• Balance of the Board • Leadership of the Group	• Review, communication, delivery and management of Group strategy and day to day operations	• Compliance with laws and regulations (excluding Health & Safety and environmental) • Whistleblowing procedures • Communication with regulators where required	• Compliance with Health & Safety and environmental law and regulations • Developing Group best practices
Reviews	• Full year and half year results • Accounting policies • Terms of engagement of auditors • Internal audit	• Achievement of performance targets for short and long term incentives • Senior management pay	• Composition of the Board • Skills, knowledge & experience on the Board • Diversity	• Group HR and IT strategy • Allocation of resources (financial and colleague) • Group performance	• Adequacy and effectiveness of Group policies in response to current law and regulation • Licences and consents required • Internal audit	• Health & Safety policies and procedures • Health & Safety audits • Accident statistics and causes
Recommends	• Re-appointment of auditors • Audit tender • Auditors' remuneration	• Level and structure of Executive remuneration • Remuneration policy	• Appointments to the Board	• Annual business plan to the Board • Acquisition opportunities to the Board • Group Vision	• Training • Policy change • Remedial or pre-emptive action	• Training • Policy change • Remedial or pre-emptive action
Monitors	• Integrity of financial statements • Effectiveness of internal controls and risk management • Internal audit function • Legal & regulatory requirements	• Appropriateness of Remuneration policy	• Independence of Non-Executive Directors • Succession planning	• Performance against key performance indicators, plans and prior year • Compliance with group risk management strategy, policy and procedures	• Appropriate retail finance metrics • Indicators of non-compliance with policy • Any relevant complaints • Legal and regulatory developments	• Accidents and near misses • Changes to law and regulations • New sites to the Group and redevelopments • Other changes in working practice
Approves	• Statements in Annual Report concerning internal controls and risk management	• Remuneration policy • Remuneration packages for Executive Directors • Design of long term incentive plans	• External appointments for Executive Directors • Skills profile for Non-Executive Directors	• Appointments to dealership management positions • Performance related remuneration of dealership colleagues • Operational process and changes	• Reports to the Board • Submissions to relevant authorities • Changes to relevant policies and processes • Training programmes • Whistleblowing procedures	• Reports to the Board • Changes to relevant policies • Training programmes

Leadership

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:

	Board Meetings		Audit Committee Meetings		Nomination Committee Meetings		Remuneration Committee Meetings	
	Scheduled	Attended	Scheduled	Attended	Scheduled	Attended	Scheduled	Attended
P Jones	11	10	-	1	2	2	4	4
R T Forrester	11	11	-	1	-	-	-	-
W M Teasdale	11	10	3	3	2	2	4	4
M Sherwin	11	11	-	3	-	-	-	-
N Stead	11	10	3	3	2	2	4	4
K Lever	11	11	3	3	2	2	4	4
P Best[1]	7	7	-	-	-	-	3	3

[1] Pauline Best was appointed on 1 June 2016

The Board seeks to ensure that the necessary financial and human resources are in place for the Group to be able to meet its objectives, to review management performance and to ensure that its obligations to its shareholders are understood and met. Whilst the executive responsibility for running the Group rests with the Chief Executive (R T Forrester) and the Chief Financial Officer (M Sherwin), the Non-Executive Directors fulfil an essential role in ensuring that the strategies proposed by the Executive Directors are fully discussed and critically examined prior to adoption. They also scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance, both financial and non-financial.

All Directors appointed by the Board must retire and seek election at the first Annual General Meeting following their appointment. One third of the other Directors are then required to retire and submit themselves for re-election each year so that all Directors are required to retire and submit themselves for re-election at least once in every three years. M Sherwin, P Jones and K Lever are to retire and submit themselves for re-election at the 2017 Annual General Meeting. W M Teasdale will retire at the 2017 Annual General Meeting. The Board is satisfied that plans are in place for orderly succession for appointments to the Board and senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

Audit Committee and Auditors

The Board has delegated responsibility for risk management and internal controls to the Audit Committee. Details of the Committee's activities during the year can be found on pages 42 and 43.

Remuneration

The Remuneration Committee has responsibility for developing the Company's remuneration policy and monitoring its implementation. Details of the Committee's activities along with the Remuneration Report can be found on pages 46 to 56.

Relations with Shareholders

The Board understands that effective communication is essential to enable shareholders to gain a clear understanding of the Group's strategy and business model. The Chief Executive and the Chief Financial Officer are in regular communication with institutional investors throughout the year and keep in close contact with the Company's corporate brokers who play an important role in ensuring shareholders' views are heard. The Board reviews a report of shareholder activity at each Board meeting and receives regular updates on all communications between major shareholders and any Director or the Company's NOMAD.

Relations with Shareholders (continued)

Shareholders are also kept informed of Company performance through regular press releases. These are made available to the London Stock Exchange and on the Company's website. Presentations were held for analysts at the Group's full year and half year announcements and pursuant to the 2016 equity raise, and several investors and analysts visited the Group central services centre with management during the course of the year. In addition, the Board sought a review of investor perception of the Group which was carried out by a third party consultancy.

Annual General Meeting ("AGM")

The 2017 AGM will take place on 26 July 2017. The AGM gives all shareholders an opportunity to meet the Board and ask any questions they have regarding the Group. The Board encourages participation of private shareholders at the AGM, however, the Board understands that it is not always possible for shareholders to attend. For this reason a prepaid reply form is sent to shareholders to enable them to appoint a proxy should they be unable to attend the AGM in person. Details of voting on resolutions at the AGM are made available on the Company's website.

By order of the Board

Karen Anderson
Company Secretary
10 May 2017

Corporate Governance Report (continued)

Audit Committee Report

Audit Committee Membership and Meetings

The Audit Committee is comprised of Committee Chairman, K Lever and two other Non-Executive Directors of the Group, namely, W M Teasdale and N Stead. The Committee met three times during the financial year and attendance is shown in the table on page 40.

Only members of the Committee are required to attend Committee meetings, however, other individuals (such as the Chief Executive, Chief Financial Officer, Company Secretary, Group Risk Manager or General Counsel and external auditors) are able to attend by invitation.

The key responsibilities of the Committee are set out in the table on page 39.

Activities during the year

During the year the Committee focused on the following matters:

- Review of the interim and year-end financial statements for the Group
- Review of the consistency and appropriateness of the accounting policies
- Review of the methods used to account for significant transactions, completeness of disclosures and material areas in which significant judgements had been applied
- Review of the effectiveness of internal controls, risk assessment process, the assurance process and changes to significant risks
- Approval of the terms of engagement, strategy, scope and effectiveness of external auditors

Significant Issues

As part of the reporting and review process, the Committee has discussed the significant issues considered in relation to the financial statements and how those issues were addressed.

During the year the Committee considered the following key risks, accounting issues and judgements:

Significant issue	Action taken
Recognition of intangible assets including goodwill	Consideration of the fair value of assets or businesses acquired during the financial year including the existence of intangible assets such as customer relationships, franchise relationships, supplier agreements, brands and goodwill. Management prepared a detailed paper with supporting calculations in the case of each material acquisition. The Committee challenged the methodology, assumptions, proposed useful lives and proposed disclosures set out by management. The Committee concluded that the useful lives and allocations of fair values to intangible assets set out in notes 14 and 15 of the consolidated financial statements were appropriate and approved the disclosures.

Audit Committee Report (continued)

Significant Issues (continued)

Significant issue	Action taken
Carrying value of goodwill, other intangibles and tangible assets	Management performed a detailed impairment review on the goodwill, other intangibles and tangible assets, in the consolidated financial statements of the Group. The Committee challenged the methodology, assumptions, and sensitivity analysis used by management. The Committee also considered the independent review by the external auditors. The Committee concluded that the carrying amounts shown in notes 14, 15 and 17 of the consolidated financial statements were appropriate and approved the disclosures.
Viability and Going Concern	Management have reviewed the Group's current financial position and have prepared financial projections covering a three year period. The projections assume that profits earned from new and used car sales will remain stable throughout 2017/18; the aftersales business and recent acquisitions will continue to show growth; UK interest rates will grow gradually over the next three years; manufacturer partners will remain in production and supply on normal terms of trade, and there will be no significant downturn in the global economic environment. These projections, even after allowing for sensitivity analysis to accommodate a reasonable downside scenario (including weaker trading and adverse movements in interest rates), indicate that the Group would be able to manage its operations so as to comfortably remain within its current funding facilities and in compliance with its banking covenants. The Committee challenged the assumptions used and also considered the review conducted by the external auditors. The Committee concluded that the Board is able to make the Viability and Going Concern statements on pages 24 and 25.
Share based payments	Management have ascribed a fair value to share options issued during the financial year. This is estimated using a fair value model, populated with a number of assumptions. The Committee reviewed and challenged these assumptions and also considered the review conducted by the external auditors. The Committee concluded that the assumptions applied and resultant fair value were appropriate.
Pension benefits	Obligations under the "Bristol Street Pension Scheme", which is a defined benefit scheme in which accrual ceased on 31 May 2003, are recognised in the balance sheet. The value recognised is the present value of the obligations calculated by independent actuaries. Obligations under the SHG Pension Scheme, which is a defined benefit scheme in which accrual ceased on 31 October 2013, were merged with the Bristol Street Pension Scheme on 27 February 2017. The value recognised is the present value of the obligation calculated by independent actuaries. The Committee reviewed the assumptions applied in calculating the obligation (set out in note 27) at 28 February 2017 and confirmed that these were appropriate.
Manufacturer bonus income	Income is received from manufacturer partners in the form of rebates and volume related bonuses. A Group wide income recognition policy is in place in respect of this income. Management allocate responsibility to Divisional Finance Directors, as nominated 'franchise experts' to ensure bonus programmes are fully understood and communicated to Dealership teams. The Group's internal audit function reviews the treatment of manufacturer bonus income recognition on a dealership by dealership basis. The Committee also considered the review performed by the external auditors. The Committee concluded that it was satisfied with the income recognition policy, and with the appropriateness of the controls currently in operation, over manufacturer bonus income recognition.

Audit Committee Report (continued)

Financial and Business Reporting

The Committee is responsible for monitoring the integrity of the financial statements including the Group's annual and half-yearly results and ensuring they are fair, balanced and understandable.

The external auditors also provide an auditors' report to the members providing an independent opinion on the truth and fairness of the Group's financial statements. This report can be found on pages 57 and 58.

Risk Management and Internal Controls

The Group has well established risk management and internal control processes. These are regularly subject to audit and the results are reported to the Audit Committee and the Board for their review.

Day to day management of risk is delegated to the Chief Executive's Committee, which consists of the Chief Executive, the Chief Financial Officer, the General Counsel, the Chief Operations Officer, the Sales Director, the Chief Marketing Officer and the six Divisional Operations Directors of the Group.

The Audit Committee 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.

Internal Audit

The Group Risk Manager reports regularly on the audits carried out in each dealership which, for the financial year ended 28 February 2017, covered both balance sheet and sales process audits. The Group Risk Manager and his team met with the Committee without the presence of management.

External Audit

The Audit Committee has recommended to the Board that a resolution be put to shareholders at the Annual General Meeting to reappoint PricewaterhouseCoopers LLP as auditors of the Company for a further year subject to their continued satisfactory performance. PricewaterhouseCoopers LLP have been appointed as auditors to the Company for the previous nine financial years. In accordance with ethical standards requirements the audit partner responsible for the engagement was subject to rotation after five years and since February 2014 has been Randal Casson. No tender has been conducted. The Committee reviewed the effectiveness, independence and objectivity of the external auditors and no matters of concern were raised during the financial year to 28 February 2017.

The external auditors attend some of the Committee meetings and the Committee meets with the external auditors without management present.

Independence of the Independent Auditors

Both the Audit Committee and the Independent Auditors have in place safeguards to avoid the Independent 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 Committee reviews the Independent 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.

Audit Committee Report (continued)

Independence of the Independent Auditors (continued)

- Other non-audit services

The Independent Auditors are not permitted to provide internal audit, risk management, litigation support or remuneration advice. The provision of other non-audit 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 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 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.

K Lever
Chairman of Audit Committee
10 May 2017

Remuneration Committee Report

Annual Statement from the Chairman of the Remuneration Committee

Introduction

On behalf of your Board, I am pleased to present our Directors' Remuneration Report for the year ended 28 February 2017. This Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee ("the Committee") in accordance with the spirit, principles and, as far as is reasonably practical, the requirements of the Companies Act 2006, the Quoted Companies Alliance Remuneration Guidance, the Investment Association's principles of Remuneration and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, notwithstanding that, as the Company is listed on AIM, these regulations do not all strictly apply. This report is split into two sections;

- the Directors' remuneration policy sets out the Company's intended policy on Directors' remuneration from 1 March 2017; and
- the annual report on remuneration sets out payments and awards made to the Directors and details the link between Company performance and remuneration for the year to 28 February 2017 and is subject to an advisory shareholder vote at this year's AGM.

The information in the Directors' Remuneration Report set out on pages 53 and 54 highlighted as being subject to audit, has been audited by the Group's auditors.

Remuneration outcomes for the year to 28 February 2017

Annual bonus opportunities are based both on the achievement of adjusted profit before tax targets including adjustments to reflect the contribution from operating units acquired or disposed of during the year. Bonuses of 90.6% and 93.3% of basic salary have been awarded to Executive Directors R T Forrester and M Sherwin respectively in respect of profit related bonus for the year ended 28 February 2017, which reflects the financial results of the Group for the year relative to expectations at the beginning of the financial year.

The long-term incentive awards made to Executive Directors under the Long Term Incentive Plan ("LTIP") during the year ended 28 February 2017, detailed later in this report, may vest in May 2019, but are subject to a holding period preventing their exercise until September 2021. These awards took the form of £Nil value share options where the vesting is subject to targets based on the achievement of absolute growth in the Company's total shareholder return ('TSR'), and absolute growth in the Company's return on shareholders' equity ('ROE').

Key remuneration decisions for the year to 28 February 2018

The Committee considered current trends in the market in which the Company is operating and in particular, the high level of salary control being imposed by Senior Management on the rest of the Group. The Remuneration Committee have recommended that from 1 March 2017, Executive Director basic salaries will remain at FY2017 levels. Similarly no increase in Non-Executive Directors' fees has been recommended.

The Executive Director annual bonus structure agreed for the year commencing 1 March 2017 has been amended to weight 20% of on-target bonus potential to customer outcome measures and the balance to the profitability of the Group. The customer outcome measures include used vehicle and service customer feedback as well as new vehicle manufacturer measured customer satisfaction scores. Profit targets have been updated to reflect the expected results for the coming year.

In developing the remuneration policy for Executive Directors for the year commencing 1 March 2017, the Committee considered the form and level of awards to be made under the LTIP. In summary, the Committee decided that these awards will again be £Nil cost share options under the LTIP subject to return on shareholders' equity and absolute growth in TSR over the next three years. The awards for the forthcoming year have yet to be finalised.

Annual Statement from the Chairman of the Remuneration Committee (continued)

Conclusion

The Directors' remuneration policy which follows this annual statement sets out the Committee's principles on remuneration for the future and the annual report on remuneration provides details of remuneration for the year ended 28 February 2017. The Committee will continue to be mindful of shareholder views and interests, and we believe that our Directors' remuneration policy continues to be aligned with the achievement of the Company's business objectives. Material changes to remuneration policy will only be made after consultation with major shareholders. We hope that we can rely on your votes in favour of the annual report on remuneration.

By Order of the Board:

P. Best
Chairman of Remuneration Committee
10 May 2017

Remuneration Committee Report (continued)

Remuneration Policy

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

Future Policy Table

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

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
BASIC SALARY			
Attract and retain high calibre Executive Directors to deliver strategy.	Paid in 12 equal monthly instalments during the year.	Reviewed annually to reflect role, responsibility and performance of the individual and the Group, and to take into account rates of pay for comparable roles in similar companies. When selecting comparators, the Committee has regard to, *inter alia,* the Group's revenue, profitability, market worth and business sector. There is no prescribed maximum increase. Annual rates are set out in the annual report on remuneration for the current year and the following year.	None
BENEFITS			
Provide benefits consistent with role.	Currently these consist of the option of a company car, or access to an employee car ownership scheme, health insurance, life assurance premiums and the opportunity to join the Company's share incentive plan ("SIP"). The Committee reviews the level of benefit provision from time to time and has the flexibility to add or remove benefits to reflect changes in market practices or the operational needs of the Group.	The cost of providing benefits is borne by the Company and varies from time to time.	None
ANNUAL BONUS			
Incentivises achievement of business objectives by providing rewards for performance against annual profit targets.	Paid in cash after the end of the financial year to which it relates.	It is the policy of the Committee to cap maximum annual bonuses. The level of such caps are reviewed annually and are set at an appropriate percentage of annual salary. The maximum bonus for 2017/18 is 150% of basic salary.	Targets are based on adjusted profit before tax of the Group and customer outcome measures. The Committee sets threshold and maximum targets on an annual basis. A sliding scale operates between threshold and maximum performance. No bonus is payable where performance is below the threshold. Payment of any bonus is subject to overriding discretion of the Committee.

Remuneration Policy (continued)

Future Policy Table (continued)

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
LONG-TERM INCENTIVES			
Alignment of interests with shareholders by providing long-term incentives delivered in the form of shares.	Grant of £Nil cost options under the LTIP. Options vest at least 3 years from grant subject to the achievement of performance conditions, with a further 2 year holding period required following the vesting period (applicable to LTIP options granted post 29 February 2016) and may not be exercised after the 10th anniversary of grant. The Committee may, at its discretion, structure awards as qualifying LTIP awards consisting of both an HMRC tax qualifying option and an LTIP award. Qualifying LTIP awards enable the participant and the Company to benefit from tax advantaged treatment in respect of part of the award without increasing the pre-tax value delivered to participants. The qualifying LTIP awards will be structured as a tax qualifying option and an LTIP award with the vesting of the LTIP award scaled back to take account of any gain made on the exercise of the tax advantaged option.	Maximum permitted annual award of options under the LTIP is 125% of basic salary. Tax qualifying options may be granted. Shares subject to a tax qualifying option granted as part of a qualifying LTIP award are not taken into account for the purposes of the individual limits because, as referred to in the operation column, the LTIP award will be scaled back to reflect the gain made on the exercise of the tax advantaged option.	Vesting is subject to targets based on the achievement of return on shareholders' equity and absolute growth in the Group's total shareholder return ("TSR").
PENSION			
Attract and retain Executive Directors for the long term by providing funding for retirement.	All Executive Directors are entitled to participate in money purchase arrangements, or to receive a cash allowance in lieu of pension contributions.	The Group makes payments of up to 16.5% of basic salary into any pension scheme or similar arrangement as the Executive Director may reasonably request. Such payments are not counted for the purposes of determining bonus or LTIP levels.	None

Notes to the Policy Table

Performance conditions

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

The initial performance target for the annual bonus is based on adjusted profit before tax. This target takes account of both the Group's budget for the year and of market expectations after taking account of the pre-close update issued at the end of the previous year. For the year ending 28 February 2018 the initial performance target is £32.7m, and may be adjusted during the year to reflect the impact of acquisitions and disposals.

The performance target for the LTIP is based on both absolute growth in the Company's total shareholder return ('TSR') and return on equity.

Remuneration Policy (continued)

Future Policy Table (continued)

Notes to the Policy Table (continued)

Differences from remuneration policy for all employees

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

Share options are only granted under the LTIP to selected Senior Executives and Executive Directors.

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

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

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

Statement of consideration of shareholder views

The Chairman of the Committee consults with major shareholders from time to time or where any significant remuneration changes are proposed, in order to understand their expectations with regard to Executive Directors remuneration and reports back to the Committee. The last time the Committee consulted with certain major shareholders was in relation to the amendments to the LTIP performance criteria for the grant made in July 2016. Any other concerns raised by individual shareholders are also considered, and the Committee also takes into account emerging best practice and guidance from major institutional shareholders.

Approach to recruitment remuneration

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

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

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

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

Remuneration Committee Report (continued)

Directors' Service Contracts, Notice Periods and Termination Payments

Provision	Policy	Details
Notice periods in Executive Directors' service contracts	12 months by Company or Executive Director	Executive Directors may be required to work during the notice period.
Compensation for loss of office	No more than 12 months' basic salary and benefits (including company pension contributions).	
Treatment of annual bonus on termination	Bonuses which have already been declared are payable in full. In the event of termination by the Company (except for cause) pro-rated bonus to the end of the notice period is payable at the discretion of the Remuneration Committee.	
Treatment of LTIP awards	Unvested awards will normally lapse on cessation of employment. However, for Good leavers the Committee shall determine whether the award is released on the normal release date or on some other date. The extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Following release, good leavers may exercise their options within 12 months (or such a period as the Committee determines). Good leaver awards that have vested but not been released (i.e. during the holding period) will ordinarily continue to the normal release date when they will be released to the extent vested. The Committee retains the discretion to release awards earlier. LTIP awards of other leavers will cease to be exercisable following notice of cessation of employment, unless the Committee determines otherwise in exceptional circumstances.	Good leaver circumstances comprise death, illness, injury, disability, retirement, transfer of employing business outside Group or exceptional circumstances at the discretion of the Committee.
Exercise of discretion	Intended only to be relied upon to provide flexibility in exceptional or inequitable circumstances.	The Committee's determination will take into account the particular circumstances of the Executive Director's departure and the recent performance of the Company and will be detailed in the next published Remuneration Committee Report.
Outside appointments	Subject to approval	Board approval must be sought.
Non-Executive Directors	Re-election	All Non-Executives are subject to re-election every three years. No compensation payable if required to stand down.

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

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

Date of Service Contracts/Letters of Appointment

DIRECTOR	Date of service contract/ letter of appointment
P. Jones	1 January 2015
R. T. Forrester	20 December 2006
M. Sherwin	4 January 2010
N. Stead	8 December 2011
W. M. Teasdale	24 March 2016
K. Lever	1 June 2015
P. Best	1 June 2016

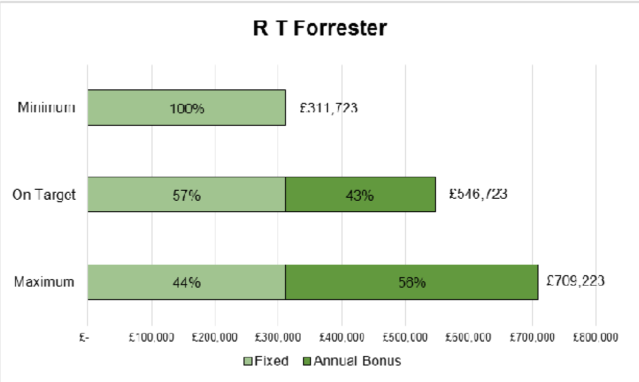
Copies of Directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

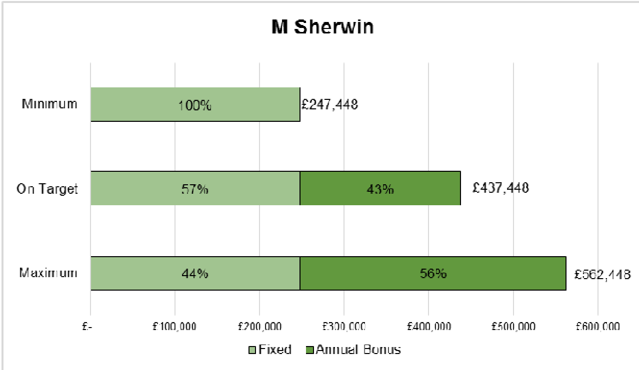
Directors' Remuneration Report

Total 2017/18 Remuneration Opportunity

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

The elements of remuneration have been categorised into three components: (i) Fixed; (ii) Annual variable (annual bonus awards); and (iii) Multiple year (LTIP awards) which are set out in the future policy table above. There is no element for multiple year (LTIP Awards) in this table this year as no options (under the LTIP or otherwise) are capable of vesting in the financial year to 28 February 2018 as the LTIP options granted in 2014 have not met the performance conditions for vesting and have therefore lapsed in full. The earliest vesting date for the remaining LTIP awards is 16 June 2018.





Each element of remuneration is defined in the table below:

Element	Description
Fixed	Base salary for the 2017/18 financial year plus pension and benefits.
Annual Bonus	Annual bonus awards based on adjusted profit before tax.

The on-target scenario assumes that for the annual bonus, adjusted profit is in line with financial targets.

Non-Executive Directors' Fee Policy

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

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
NON-EXECUTIVE DIRECTOR ('NED') FEES			
To attract NEDs who have a broad range of experience and skills to oversee the implementation of our strategy	NED fees are determined by the Board within the limits set out in the Articles of Association and are paid in 12 equal monthly instalments during the year. Non-Executive Directors may be eligible for benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate.	Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase. The cost of providing benefits is borne by the Company and varies from time to time.	None

Directors' Remuneration Report (continued)

Information subject to audit

Single Total Figure of Remuneration

The remuneration of the Directors who served during the period from 1 March 2016 to 28 February 2017 is as follows:

	Salary or fees £'000		Taxable Benefits[2] £'000		Pension £'000		Bonus £000		Long Term Incentive Plan[3] £'000		Single total figure £'000	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Executive Directors												
R T Forrester	**265**	250	**3**	2	**44**	37	**240**	296	**71**	-	**623**	585
M Sherwin	**210**	190	**3**	2	**35**	28	**196**	225	**53**	-	**497**	445
Non-Executive Directors												
P Jones	**70**	70	**1**	1	**-**			-	**-**	-	**71**	71
K Lever	**50**	26	**-**	-	**-**			-	**-**	-	**50**	26
W M Teasdale	**54**	50	**1**	1	**-**			-	**-**	-	**55**	51
N Stead	**39**	35	**1**	1	**-**			-	**-**	-	**40**	36
P Best[1]	**30**	-	**1**	-	**-**			-	**-**	-	**31**	-
D M Forbes	**-**	14	**-**	-	**-**			-	**-**	-	**-**	14

1. P Best joined the board on 1 June 2016, her fee for the year to 28 February 2017 is calculated from 1 June 2016.
2. Benefits in kind include vehicle insurance, together with medical and life assurance premiums
3. The value of the LTIP awards which vested in the year to 28 February 2017 is based on the actual price these shares were sold at (where shares were retained by directors, the sold at price was used), which was 49.75p on 5 September 2016.

Annual Bonus

Bonuses are earned by reference to the financial year and paid following the end of the financial year. The target adjusted profit before tax (adjusted, inter alia, to reflect the contribution from operating units acquired or disposed of during the financial year) was £31.0m. The bonuses accruing to the Executive Directors in respect of the year ended 28 February 2017 are shown below:

Performance measure	Adjusted PBT £'000	R T Forrester % Basic salary payable	M Sherwin % Basic salary payable
Actual Performance	**31,516**	**90.6%**	**93.3%**
Threshold performance	24,000	18.9%	23.8%
Maximum	40,000	126.4%	133.3%

Pensions

The Group operates a group personal pension plan for eligible colleagues. R T Forrester and M Sherwin ceased to be active members of the plan in 2015 and 2014 respectively. R T Forrester and M Sherwin have elected to receive a payment of 16.5% of salary rather than company pension contributions during the year ended 28 February 2017.

Directors' Share Options

The movement in share options held by the Directors during the year ended 28 February 2017 is as follows:

	Number at 1 March 2016	Exercised in Year	Lapsed in Year	Granted in Year	Number at 28 February 2017
R T Forrester	998,807	(142,887)	(142,317)	289,854	1,003,457
M Sherwin	749,106	(107,166)	(106,738)	217,391	752,593

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

	Scheme	Date of Grant	Earliest Exercise Date[1]	Expiry Date	Exercise price (pence)	Market value on date of grant (pence)	Number of options granted
R T Forrester	LTIP	5 Sept 2016	5 Sept 2021	5 Sept 2026	Nil	46.0p	289,854
M Sherwin	LTIP	5 Sept 2016	5 Sept 2021	5 Sept 2026	Nil	46.0p	217,391

1. Options may meet performance criteria for vesting in 2019, but are subject to a two year retention period preventing their exercise until 5 September 2021.

Directors’ Remuneration Report (continued)

Directors' Share Options (continued)

LTIP Options issued prior to 29 February 2016

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

The absolute growth performance condition, applying to half of the LTIP options granted to date, is as follows:

Growth in Company TSR	Proportion of awards subject to absolute TSR condition vesting
Less than 25% absolute growth	0%
More than 25% but less than 100% absolute growth	Straight line vesting 0 – 100%
100% or more than 100% absolute growth	100%

The relative TSR performance condition, applying to the other half of the LTIP options granted to date, is as follows:

Ranking of Company TSR*	Proportion of award subject to relative TSR condition vesting
Below median	0%
Between median and 90th percentile	Straight line vesting 0 – 100%
Above 90th percentile	100%

*Based on FTSE small cap index (excluding investment trusts)

LTIP Options issued after 29 February 2016

Vesting of one half of the LTIP options is dependent on absolute growth in the Company's TSR. TSR calculations will be based on the average of opening and closing share prices over a 10 Business Day period prior to the commencement and end of the performance period. Vesting of the remaining half of the LTIP options is dependent on growth in the Group’s return on shareholders’ equity (‘ROE’).

The TSR performance condition, applying to half of the LTIP options granted in the year ended 28 February 2017, is:

Growth in Company TSR	Proportion of awards subject to TSR condition vesting
Less than 26% absolute growth	0%
More than 26% but less than 42% absolute growth	Straight line vesting 0 – 100%
42% or more than 42% absolute growth	100%

The ROE performance condition, applying to the remaining half of the LTIP options granted in the year ended 28 February 2017, is:

Growth in Group ROE[1]	Proportion of awards subject to ROE condition vesting
Less than 8% growth	0%
More than 8% but less than 10% growth	Straight line vesting 0 – 100%
10% or more than 10% absolute growth	100%

1. ROE is measured as average annual adjusted profit after tax as stated in the financial statements for the performance period, divided by average Group Net Assets.

Directors' Remuneration Report (continued)

Information not subject to audit

Statement of Directors' Shareholding

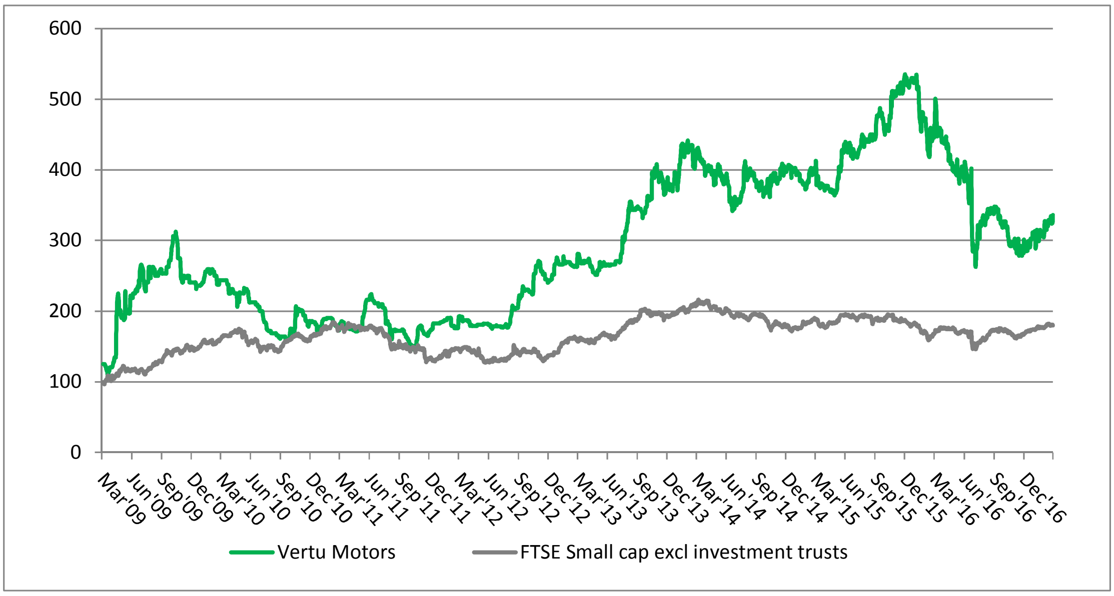
The Directors who held office at 28 February 2017 and their connected persons had interests in the issued share capital of the Company as at 28 February 2017 as follows:

	Number of shares held (including by connected persons)		Unvested share options subject to performance conditions[2]	
	28 February 2017	**29 February 2016**	**28 February 2017**	**29 February 2016**
R T Forrester	6,925,606	6,632,973	1,003,457	998,807
M Sherwin	484,993	364,597	752,593	749,106
P Jones	1,405,000	1,125,000	-	-
K Lever	40,800	-	-	-
W M Teasdale	648,450	616,450	-	-
N Stead	80,500	56,500	-	-
P Best	-	-	-	

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

Performance Graph

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



The middle market price of the shares as at 28 February 2017 was 47.8p (29 February 2016: 65.8p) and the range during the financial year was 37.3p to 71.0p (2016: 53.8p to 78.4p).

Directors' Remuneration Report (continued)

Change in Remuneration of Chief Executive

The following table sets out the change in the Chief Executive's salary, benefits and bonus between the years ended 29 February 2016 and 28 February 2017 compared with the average percentage change in each of those components for the employees of the Group.

	Increase in base salary	Change in benefits	Change in bonus
CEO	6%	20%	-(19%)
Employees	4%	0%	13%

Relative Importance of Spend on Pay

The table below sets out the total spend on pay in the years ended 29 February 2016 and 28 February 2017 compared with other disbursements from profit (i.e. the distributions to shareholders).

	Spend in the year ended 28 February 2017 £'000	Spend in the year ended 29 February 2016 £'000	% change
Spend on remuneration (including Directors)	179,222	149,020	20.3%
Profit distributed by way of dividend	5,353	3,923	36.5%

Shareholders' Vote on Remuneration at the 2016 AGM

2016 Directors' Remuneration Report	Number	Proportion of votes cast (%)
Votes cast in favour	176,499,852	99.99
Votes cast against	24,978	0.01
Total votes cast in favour or against	**176,524,830**	**100.00**
Votes withheld	8,045	

Implementation of Remuneration Policy for the year ending 28 February 2018

The annual salaries and fees to be paid to Directors in the year ending 28 February 2018 are set out in the table below, together with any increase expressed as a percentage.

	Annual Salary/fees		
	28 February 2018 £'000	28 February 2017 £'000	Increase %
R T Forrester	265	265	-
M Sherwin	210	210	-
P Jones	70	70	-
K Lever	55	50	10.0%
W M Teasdale	55	54	1.9%
N Stead	40	39	3.2%
P Best	40	40	-

The basis for determining annual bonus payments for the year to 28 February 2018 is set out in the future policy table in the Remuneration Committee Report (pages 48 and 49)

The Committee intends to grant options under the LTIP in 2017/18. These options will be £Nil cost options over a value of shares subject to a maximum of 125% of salary where the vesting is subject to targets based on the achievement of return on shareholders' equity targets and the achievement of absolute growth in the Company's total shareholder return ("TSR") , measured over a three year period from 1 March 2017. Part of the LTIP awards can take the form of a tax advantaged qualifying option over shares to the limit prescribed by the applicable tax legislation (currently £30,000).

Consideration by the Directors of Matters Relating to Directors' Remuneration

The Committee

The Committee is responsible for reviewing and recommending the framework and policy for remuneration of the Executive Directors. The Committee's terms of reference are available from the Company Secretary. The members of the Committee during the financial year were P Best (Chairman) from 1 June 2016, N Stead, W M Teasdale, P Jones and K Lever.

Independent Auditors' Report to the members of Vertu Motors plc

Report on the group financial statements

Our opinion

In our opinion, Vertu Motors plc's group financial statements ("the financial statements"):

- give a true and fair view of the state of the group's affairs as at 28 February 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements included within the Annual Report and Financial Statements (the "Annual Report") comprise:

- the Consolidated Balance Sheet as at 28 February 2017;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of information and explanations received

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

Directors' remuneration

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the Company financial statements of Vertu Motors plc for the year ended 28 February 2017.

Randal Casson (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds

10 May 2017

Consolidated Income Statement

For the year ended 28 February 2017

	Note	2017 £'000	2016 £'000
Revenue		2,822,589	2,423,279
Cost of sales		(2,509,049)	(2,160,000)
Gross profit		**313,540**	**263,279**
Operating expenses	6	(281,466)	(236,100)
Operating profit		**32,074**	**27,179**
Amortisation of intangible assets		614	558
Share based payments charge		1,082	911
Operating profit before amortisation and share based payments charge		**33,770**	**28,648**
Finance income	10	261	173
Finance costs	10	(2,515)	(1,390)
Profit before tax		**29,820**	**25,962**
Amortisation of intangible assets		614	558
Share based payments charge		1,082	911
Profit before tax, amortisation and share based payments charge		**31,516**	**27,431**
Taxation	11	(5,800)	(5,282)
Profit for the year attributable to equity holders		**24,020**	**20,680**
Basic earnings per share (p)	12	**6.14**	**6.06**
Diluted earnings per share (p)	12	**6.04**	**5.92**

Consolidated Statement of Comprehensive Income

For the year ended 28 February 2017

	Note	2017 £'000	2016 £'000
Profit for the year		**24,020**	**20,680**
Other comprehensive (expense) / income			
Items that will not be reclassified to profit or loss:			
Actuarial (losses) / gains on retirement benefit obligations	27	(4,687)	680
Deferred tax relating to actuarial losses / (gains) on retirement benefit obligations	27	937	(137)
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges	29	-	23
Deferred tax relating to cash flow hedges	29	-	(6)
Other comprehensive (expense) / income for the year, net of tax		**(3,750)**	**560**
Total comprehensive income for the year attributable to equity holders		**20,270**	**21,240**

Consolidated Balance Sheet

As at 28 February 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Goodwill and other indefinite life assets	14	94,595	69,484
Other intangible assets	15	1,518	1,672
Retirement benefit asset	27	1,884	6,097
Property, plant and equipment	17	197,545	150,361
		295,542	**227,614**
Current assets			
Inventories	19	506,470	530,371
Trade and other receivables	21	52,545	63,412
Property assets held for sale	20	-	537
Cash and cash equivalents	22	39,845	43,915
Total current assets		**598,860**	**638,235**
Total assets		**894,402**	**865,849**
Current liabilities			
Trade and other payables	23	(610,317)	(631,148)
Deferred consideration	16	(1,572)	(241)
Current tax liabilities		(3,840)	(3,647)
Borrowings	24	(8,671)	(6,756)
Total current liabilities		**(624,400)**	**(641,792)**
Non-current liabilities			
Borrowings	24	(10,166)	(14,011)
Deferred consideration	16	(236)	(1,659)
Deferred income tax liabilities	25	(5,555)	(4,450)
Deferred income	26	(7,616)	(6,078)
		(23,573)	**(26,198)**
Total liabilities		**(647,973)**	**(667,990)**
Net assets		**246,429**	**197,859**
Capital and reserves attributable to equity holders of the Group			
Ordinary shares	28	39,727	34,127
Share premium	28	124,932	96,901
Other reserve	28	10,645	10,645
Treasury reserve	28	(756)	-
Retained earnings		71,881	56,186
Shareholders' equity		**246,429**	**197,859**

These financial statements on pages 59 to 101 have been approved for issue by the Board of Directors on 10 May 2017:

Robert Forrester
Chief Executive

Michael Sherwin
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 28 February 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Operating profit		32,074	27,179
Profit on sale of property, plant and equipment	6	(285)	(26)
Amortisation of other intangible assets	15	614	558
Depreciation of property, plant and equipment	17	8,665	6,803
Movement in working capital	31	16,040	30,515
Share based payments charge		1,015	781
Cash generated from operations		**58,123**	**65,810**
Tax received		359	4
Tax paid		(6,103)	(7,704)
Finance income received		34	36
Finance costs paid		(2,447)	(1,451)
Net cash generated from operating activities		**49,966**	**56,695**
Cash flows from investing activities			
Acquisition of businesses, net of cash and overdrafts acquired	16	(49,962)	(24,565)
Acquisition of freehold and long leasehold land and buildings		(4,456)	(6,475)
Purchases of intangible assets		(460)	(325)
Purchases of other property, plant and equipment		(25,092)	(13,977)
Proceeds from disposal of business (net of cash and overdrafts)	16	875	2,137
Proceeds from disposal of property, plant and equipment		950	1,120
Net cash outflow from investing activities		**(78,145)**	**(42,085)**
Cash flows from financing activities			
Net proceeds from issuance of ordinary shares		33,631	127
Proceeds from borrowings	30	10,831	18,288
Repayment of borrowings	30	(14,000)	(4,441)
Purchase of treasury shares	28	(1,000)	-
Dividends paid to equity holders		(5,353)	(3,923)
Net cash inflow from financing Activities		**24,109**	**10,051**
Net (decrease) / increase in cash and cash equivalents	30	**(4,070)**	**24,661**
Cash and cash equivalents at beginning of year		43,915	19,254
Cash and cash equivalents at end of year	22	**39,845**	**43,915**

Consolidated Statement of Changes in Equity

For the year ended 28 February 2017

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Retained Earnings £'000	Total Equity £'000
As at 1 March 2016	34,127	96,901	10,645	-	56,186	197,859
Profit for the year	-	-	-	-	24,020	24,020
Actuarial losses on retirement benefit obligations	-	-	-	-	(4,687)	(4,687)
Tax on items taken directly to equity	-	-	-	-	937	937
Total comprehensive income for the year	-	-	-	-	20,270	20,270
New ordinary shares issued	5,600	29,400	-	-	-	35,000
Cost of issuance of ordinary shares	-	(1,369)	-	-	-	(1,369)
Purchase of treasury shares	-	-	-	(1,000)	-	(1,000)
Treasury shares issued	-	-	-	244	(237)	7
Dividend paid	-	-	-	-	(5,353)	(5,353)
Share based payments charge	-	-	-	-	1,015	1,015
As at 28 February 2017	**39,727**	**124,932**	**10,645**	**(756)**	**71,881**	**246,429**

The purchase of treasury shares in the period relates to the acquisition of 2,635,687 shares by Estera Trust (Jersey) Limited, the Trustee of Vertu Motors plc's Employee Benefit Trust ("EBT"). The shares were purchased by the Trustee to be held for the purposes of the Employee Benefit Trust, and may be used to transfer shares to individuals when options are exercised. This could include the Company's Long Term Incentive Plan ("LTIP"), under which each of the executive directors of the Company, the Company's other PDMRs and certain other senior managers are potential participants, and is therefore regarded as having a notional interest in these shares.
During the year, 625,134 treasury shares were transferred or sold by the EBT on exercise of vested LTIP options, and 20,000 treasury shares were transferred or sold by the EBT on exercise of vested Company Share Options.

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

For the year ended 29 February 2016

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 March 2015	**34,091**	**96,810**	**10,645**	**(17)**	**38,105**	**179,634**
Profit for the year	-	-	-	-	20,680	20,680
Actuarial gains on retirement benefit obligations	-	-	-	-	680	680
Tax on items taken directly to equity	-	-	-	(6)	(137)	(143)
Fair value gains	-	-	-	23	-	23
Total comprehensive income for the year	-	-	-	17	21,223	21,240
New ordinary shares issued	36	91	-	-	-	127
Dividend paid	-	-	-	-	(3,923)	(3,923)
Share based payments charge	-	-	-	-	781	781
As at 29 February 2016	**34,127**	**96,901**	**10,645**	**-**	**56,186**	**197,859**

Notes to the Consolidated Financial Statements

For the year ended 28 February 2017

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 England. The address of the registered office is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne and Wear, NE11 0XA. The registered number of the Company is 05984855.

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

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

The consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 109 to 111 of the annual report. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2017 by virtue of s479A of Companies Act 2006. Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2017 by virtue of s394A of Companies Act 2006. In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the parent company Vertu Motors plc has given a statutory guarantee of all the outstanding liabilities as at 28 February 2017 of the subsidiaries listed below, further details of which are provided in note 32.

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2017 by virtue of s479A Companies Act 2006 are:

Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Vertu Motors (Knaresborough) Limited
SHG Holdings Limited
South Hereford Garages Limited
South Hereford Garages Trade Parts LLP
Blacks Autos Limited
Vertu Motors (Property 2) Limited
Gordon Lamb Group Limited
Macklin Property Limited
Tyne Tees Finance Limited
Grantham Motor Company Limited
Vertu Motors (Property) Limited
Albert Farnell Limited
All Car Parts Limited
International Concessionaires Limited
Vertu Motors Property 2 Holdings Limited
Why Pay More For Cars Limited
Aceparts Limited (formerly Whos Ace Holdings Limited)

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2017 by virtue of s394A of Companies Act 2006 are:

Blake Holdings Limited
Bristol Street (No.1) Limited
Bristol Street (No.2) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
BSH Pension Trustee Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
Dunfermline Autocentre Limited
Widnes Car Centre (1994) Limited
Compare Click Call Limited
K C Motability Solutions Limited
Bristol Street Commercials (Italia) Limited
Newbolds Garage (Mansfield) Limited
Hillendale LR Limited
Hillendale Group Limited
National Allparts Limited
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (Finance) Limited
Vertu Motors (Retail) Limited
Boydslaw 103 Limited
Vertu Motors (Pity Me) Limited
Widnes Car Centre Limited
Vertu Motors (Durham) Limited
Dobies (Carlisle) Limited
Vertu Motors (AMC) Limited
Brookside (1998) Limited
Nottingham TPS LLP
Easy Vehicle Finance Limited
The Taxi Centre Limited

1. Accounting Policies (continued)

Basis of preparation (continued)

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

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

Standards and interpretations adopted by the Group in the year ended 28 February 2017

Amendment to IAS 19, 'Employee benefits', regarding defined benefit plans
Annual improvements 2012
Annual improvements 2014
Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation
Amendments to IAS 27, 'Separate financial statements' on the equity method
Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative

The adoption of the new standards and amendments above has had no significant impact on the financial statements of the Group.

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

IAS Amendments to IAS 7, Statement of cash flows on disclosure initiative
Amendments to IAS 12, 'Income taxes' on recognition of deferred tax assets for unrealised losses
Amendments to IFRS 2, 'Share based payments', on clarifying how to account for certain types of share-based payment transactions
IFRS 9, 'Financial Instruments'
IFRS 15, 'Revenue from contracts with customers'
Annual improvements 2014-2016
IFRIC 22, 'Foreign currency transactions and advance consideration'

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

In addition to the above, IFRS 16, 'Leases', is effective for periods beginning on or after 1 January 2019 and requires lessees to recognise a lease asset and liability based on discounted future lease payments for almost all leased assets. The impact on the Group's financial statements as a result of this change cannot currently be accurately estimated, however the Group will continue to review and assess the impact of this over the next financial year. The Group's future minimum lease payments under non-cancellable operating leases is presented in note 33.

Other new standards and interpretations in the year have not been included in the list above as they are not considered relevant to the Group.

Measurement period adjustment

The Group assesses the fair value of assets acquired and finalises purchase price allocation within the measurement period following acquisition and in accordance with IFRS3. This includes an exercise to search for other material separately identifiable intangible assets such as brand value, supplier agreements, franchise relationships and customer relationships. The finalisation of the purchase price allocation may result in a change in the fair value of assets acquired.

Within the measurement period of a number of acquisitions made in the year ended 29 February 2016, the purchase price allocation was finalised which resulted in a £35,000 reduction in the fair value of stock acquired, a £4,000 reduction in the fair value of trade and other receivables acquired and a £236,000 increase in the fair value of trade and other payables acquired. There was a corresponding increase of £275,000 in the fair value of goodwill arising on these acquisitions.

In accordance with IFRS3, measurement period adjustments are reflected in the financial statements as if the final purchase price allocation had been completed at the acquisition date.

1. Accounting Policies (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of Vertu Motors plc and its subsidiary undertakings. Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date at which control is transferred to the Group and they are excluded from the consolidated financial statements from the date that control ceases.

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

Business combinations and goodwill

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

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

The consolidated income statement identifies the impact of acquisitions made during the accounting period in each relevant line item. The comparative amounts are incorporated into the relevant continuing operations line items.

	2017 £'000	2016 £'000
Revenue		
Continuing operations	2,642,909	2,423,279
Acquisitions	179,680	-
	2,822,589	**2,423,279**
Cost of sales		
Continuing operations	(2,350,642)	(2,160,000)
Acquisitions	(158,407)	-
	(2,509,049)	**(2,160,000)**
Gross profit		
Continuing operations	292,267	263,279
Acquisitions	21,273	-
	313,540	**263,279**
Operating expenses		
Continuing operations	(260,424)	(236,100)
Acquisitions	(21,042)	-
	(281,466)	**(236,100)**
Operating profit		
Continuing operations	31,843	27,179
Acquisitions	231	-
	32,074	**27,179**

1. Accounting Policies (continued)

Business combinations and goodwill (continued)

In 2016, acquisitions in the year contributed £94,947,000 to revenue, £85,075,000 to cost of sales (giving gross profit of £9,872,000) and £10,466,000 to operating expenses (giving an operating loss from acquisitions of £594,000). These acquisitions are reclassified as continuing operations in the current year's result.

Other intangible assets

Intangible assets, when acquired separately from a business combination, comprise computer software and are carried at cost less accumulated amortisation and any impairment losses. Amortisation is provided on a straight-line basis to allocate the cost of the asset over its estimated useful life, which in the case of computer software is between four and six years.

Intangible assets, for example, franchise relationships and customer relationships acquired as part of a business combination, are capitalised separately from goodwill if the asset is separable and if the fair value can be measured reliably on initial recognition. Such assets are stated at fair value less accumulated amortisation. Amortisation is provided on a straight-line basis over their expected useful lives. Intangible assets with an indefinite useful life are tested annually for impairment.

Property, plant and equipment

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

Freehold buildings	2%
Long leasehold buildings	Lease term
Short leasehold properties	Lease term (under 25 years)
Franchise standards property improvements	20%
Vehicles and machinery	10% - 20%
Furniture, fittings and equipment	20% - 50%

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

Inventories

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

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

1. Accounting Policies (continued)

Inventories (continued)

As part of its normal trading activities the Group has contracted to repurchase, at predetermined values and dates, certain vehicles previously sold. The Group recognises its residual interest in these vehicles through the inclusion of such vehicles within inventory, at the lower of the repurchase price or recoverable value, with a liability equal to the repurchase price within the trade payables.

Trade receivables

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

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

Trade payables

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

Deferred income

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

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

Impairment of financial and non-financial assets

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

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

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

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

1. Accounting Policies (continued)

Impairment of financial and non-financial assets (continued)

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

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

Taxation

Current tax

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

Deferred tax

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

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

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

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

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

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

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

Revenue

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

1. Accounting Policies (continued)

Manufacturer rebates

Vehicle specific rebates from manufacturers are recognised when it is probable that the economic benefit will flow to the Group and the value can be reliably measured. In practice, this means that vehicle specific manufacturer rebates are recognised when the vehicle to which the rebate relates, has been invoiced and physically despatched. In the case of non-vehicle specific related rebates from suppliers, these are recognised in the income statement upon achievement of the specific agreed supplier criteria.

Pension costs

The Group operates a trust based defined benefit pension scheme, Bristol Street Pension Scheme, which was closed to new entrants and future accrual in May 2003.

During the year ended 29 February 2016 the Group acquired SHG Holdings Limited which operated the SHG Pension Scheme, a scheme which was closed to new entrants on 23 July 2003 and closed to future accrual in October 2013. On the 27 February 2017, this scheme was merged into the Bristol Street Pension Scheme.

Typically defined benefit schemes define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The assets of the defined benefit scheme are held separately from the assets of the Group. The asset or liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined benefit obligations at the balance sheet date less the fair value of plan assets. Defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligations 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.

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

A Group personal pension arrangement under which the Group pays fixed contributions into an individual's funds, is in place. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior years. Contributions into this scheme are charged to the Income Statement in the year in which they are payable.

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.

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.

1. Accounting Policies (continued)

Segmental reporting

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

Leases

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

Share capital

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

Dividend distribution

Final dividends to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when they are paid.

2. Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt market prices and interest rates. The Group's treasury management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group used derivative financial instruments to reduce exposure to interest rate movements on a term loan which was repaid in full in the previous financial year. Accordingly, the Group held no outstanding derivative instruments at the balance sheet date.

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

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

Market Risk – Cash Flow Interest Rate Risk

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

The interest rate exposure of the Group is managed within the constraints of the Group's business plan and the financial covenants under its facilities. The Group 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. No significant issues were highlighted as a resulted of these sensitivities being performed.

Credit Risk

Credit risk arises from cash and deposits with banks as well as credit exposures to customers. Individual customer risk limits are set based on external credit reference agency ratings and the utilisation of these credit limits is regularly monitored. Further disclosure on credit exposure is given in note 21.

2. Financial risk management (continued)

Liquidity Risk

Ultimate responsibility for liquidity risk rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Disclosed within note 24 are the undrawn banking facilities that the Group has at its disposal, in order to further reduce liquidity risk.

The table below analyses the Group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. All borrowings are denominated in sterling.

	Less than one year £'000	**Between two and five years £'000**	**Total £'000**
Bank borrowings	180	10,720	10,900
Trade and other payables (excluding social security and other taxes)	604,791	-	604,791
At 28 February 2017	**604,971**	**10,720**	**615,691**

	Less than one year £'000	**Between two and five years £'000**	**Total £'000**
Bank borrowings	224	14,448	14,672
Trade and other payables (excluding social security and other taxes)	626,400	-	626,400
At 29 February 2016	**626,624**	**14,448**	**641,072**

3. Capital risk management

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

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

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

The Group had net cash of £21,008,000 at 28 February 2017 as disclosed in note 30 to the consolidated financial statements (2016: Net cash of £23,148,000).

Fair value estimation

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

4. Critical accounting estimates and judgements

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

Valuation of goodwill

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

Valuation of other intangible assets

When a business combination takes place, the Group is required to assess whether there are any additional intangible assets arising separately from goodwill. Management judgement is required to determine whether an intangible asset can be separately identified, what fair value should be ascribed to the asset and its attributable useful life.

Impairment of goodwill and other indefinite life assets

The Group tests annually, or whenever events or changes in circumstances occur, to determine whether goodwill or other indefinite life assets have 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.

Share based payments

Share options issued to certain employees are measured at fair value at the grant date using a fair value model, and are expensed on a straight-line basis over the vesting period based on an estimate of the number of options which will vest. The key assumptions of this model are disclosed in note 28.

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

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

Pension benefits

During the year ended 28 February 2017, the Group operated two defined benefit schemes, the "Bristol Street Pension Scheme" and the "SHG Pension Scheme". On 27 February 2017, the assets and liabilities of the SHG Pension Scheme were merged into the Bristol Street Pension Scheme and therefore at 28 February 2017, the Group only operated one defined benefit pension scheme. The obligations under this defined benefit scheme are recognised in the balance sheet and represent the present value of the obligations calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, annual rates of return and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of the assumptions used for the scheme in the year ended 28 February 2017 are provided in note 27.

5. Segmental information

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

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

5. Segmental information (continued)

Year ended 28 February 2017

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales*	227.0	8.0	123.4	39.4	44.6
Used cars	1,037.5	36.8	100.7	32.1	9.7
New car retail and Motability	909.4	32.2	68.3	21.8	7.5
New fleet and commercial	648.7	23.0	21.1	6.7	3.3
	2,822.6	**100.0**	**313.5**	**100.0**	**11.1**

Year ended 29 February 2016

	Revenue £'m	Revenue Mix %	Gross Margin £'m	Gross Margin Mix %	Gross Margin %
Aftersales*	189.0	7.8	102.9	39.1	44.8
Used cars	850.2	35.1	83.5	31.7	9.8
New car retail and Motability	796.5	32.9	59.3	22.5	7.4
New fleet and commercial	587.6	24.2	17.6	6.7	3.0
	2,423.3	**100.0**	**263.3**	**100.0**	**10.9**

* margin in aftersales expressed on internal and external turnover

6. Operating expenses

	2017 £'000	2016 £'000
Wages and salaries excluding share based payments charge (note 8)	157,788	131,223
Share based payments charge (note 28)	1,082	911
Depreciation on property, plant and equipment (note 17)	8,665	6,803
Amortisation (note 15)	614	558
Profit on disposal of property, plant and equipment	(285)	(26)
Operating lease rentals – property	10,417	9,057
Operating lease rentals – plant and equipment	323	209
Operating lease rentals – vehicles	3,895	3,299
Auditors' remuneration (note 7)	288	284
Rental income	(243)	(548)
Other expenses	98,922	84,330
	281,466	**236,100**

7. Auditors' remuneration

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the audit of the parent Company and consolidated financial statements	194	180
Fees payable to the Company's auditors and its associates for other services:		
- audit of Group's subsidiaries	33	26
- Due diligence and other services	61	78
	288	**284**

8. Employee benefit expense

	2017 £'000	2016 £'000
Wages and salaries	160,107	133,160
Social security costs	16,560	13,681
Pension costs – defined contribution plans	2,555	2,179
	179,222	**149,020**
Share based payments charge (note 28)	1,082	911
	180,304	**149,931**

Employee benefit expense included in:

	2017 £'000	2016 £'000
Operating expenses	157,788	131,223
Cost of sales	21,434	17,797
Share based payment charge	1,082	911
	180,304	**149,931**

Details of the remuneration of the Directors who served during the year from 1 March 2016 to 28 February 2017 and the year from 1 March 2015 to 29 February 2016 are given in the Directors' Remuneration Report on pages 52 to 56.

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

	Number 2017	Number 2016
Sales and distribution	2,042	1,779
Service, parts and accident repair centres	1,943	1,640
Administration	1,260	1,072
	5,245	**4,491**

10. Finance income and costs

	2017 £'000	2016 £'000
Interest on short term bank deposits	34	36
Net finance income relating to defined benefit pension schemes (note 27)	227	137
Finance income	**261**	**173**
Bank loans and overdrafts	(876)	(619)
Vehicle stocking interest	(1,639)	(572)
Other finance costs	-	(199)
Finance costs	**(2,515)**	**(1,390)**

'Other finance costs' in the year ended 29 February 2016 comprised interest payable relating to previous periods due to HMRC.

11. Taxation

	2017 £'000	2016 £'000
Current tax		
Current tax charge	6,468	5,598
Adjustment in respect of prior years	(227)	(258)
Total current tax	**6,241**	**5,340**
Deferred tax		
Origination and reversal of temporary differences	(70)	395
Adjustment in respect of prior years	(112)	(145)
Rate differences	(259)	(308)
Total deferred tax (note 25)	**(441)**	**(58)**
Income tax expense	**5,800**	**5,282**

	2017 £'000	2016 £'000
Profit before taxation from continuing operations	29,820	25,962
Profit before taxation multiplied by the rate of corporation tax in the UK of 20% (2016: 20.08%)	5,964	5,213
Non-qualifying depreciation	357	245
Non-deductible expenses	267	412
Effect on deferred tax balances due to rate change	(259)	(308)
Property adjustment	(168)	153
Permanent benefits	(22)	(30)
Adjustments in respect of prior years	(339)	(403)
Total tax expense included in the income statement	**5,800**	**5,282**

The standard rate of Corporation Tax in the UK is 20% with effect from 1 April 2015. Accordingly, the Group's profits for this accounting period are taxed at a rate of 20%. The standard rate of Corporation Tax in the UK will be 19% with effect from 1 April 2017.

12. Earnings per share

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

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

The number of shares calculated, as set out above, is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

12. Earnings per share (continued)

	2017 £'000	2016 £'000
Profit attributable to equity shareholders	24,020	20,680
Amortisation of intangible assets	614	558
Share based payments charge	1,082	911
Tax effect of adjustments	(119)	(112)
Adjusted earnings attributable to equity shareholders	**25,597**	**22,037**
Weighted average number of shares in issue ('000s)	391,116	341,080
Potentially dilutive shares ('000s)	6,800	8,388
Diluted weighted average number of shares in issue ('000s)	**397,916**	**349,468**
Basic earnings per share	**6.14p**	**6.06p**
Diluted earnings per share	**6.04p**	**5.92p**
Basic adjusted earnings per share	**6.54p**	**6.46p**
Diluted adjusted earnings per share	**6.43p**	**6.31p**

13. Dividends per share

Dividends of £5,353,000 were paid in the year to 28 February 2017 (2016: £3,923,000), 1.35p per share (2016: 1.15p). A final dividend in respect of the year ended 28 February 2017 of 0.90p per share, is to be proposed at the annual general meeting on 26 July 2017. The ex-dividend date will be 29 June 2017 and the associated record date 30 June 2017. This dividend will be paid, subject to shareholder approval, on 31 July 2017 and these financial statements do not reflect this final dividend payable.

14. Goodwill and other indefinite life assets

2017	Goodwill £'000	Franchise relationships £'000	Total £'000
Cost and net book value			
At 1 March 2016	56,270	13,214	69,484
Additions (note 16)	18,133	6,978	25,111
At 28 February 2017	**74,403**	**20,192**	**94,595**

2016	Goodwill £'000	Franchise relationships £'000	Total £'000
Cost and net book value			
At 1 March 2015	41,745	9,122	50,867
Additions	14,525	4,092	18,617
At 29 February 2016	**56,270**	**13,214**	**69,484**

Impairment

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

- Goodwill and other indefinite life assets
- Other assets where there is any indication that the relevant asset may be impaired

In the years ended 28 February 2017 and 29 February 2016, the acquired goodwill and other indefinite life assets were tested for impairment, with no impairment charge deemed necessary.

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

14. Goodwill and other indefinite life assets (continued)

A summary of the goodwill purchased is presented below:

	2017 £'000	2016 £'000
Bristol Street Group Limited	13,860	13,860
Albert Farnell Limited	12,029	12,029
Hillendale Group Limited	5,159	5,159
SHG Holdings Limited	7,842	7,842
Bury Land Rover	4,415	4,415
Sigma Holdings Limited	11,879	-
Gordon Lamb Group Limited	5,754	-
Other acquisitions	13,465	12,965
	74,403	**56,270**

A summary of franchise relationships acquired is presented below:

	2017 £'000	2016 £'000
Albert Farnell Limited	7,373	7,373
Hillendale Group Limited	1,749	1,749
Bury Land Rover	2,595	2,595
SHG Holdings Limited	1,497	1,497
Sigma Holdings Limited	3,771	-
Gordon Lamb Group Limited	3,207	-
	20,192	**13,214**

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

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

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

An annual growth rate of 3% is assumed for the first five years, after which a growth rate of 0% is assumed to perpetuity. A risk adjusted post-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 8% (2016: 8%) is applied (pre-tax discount rate of 10% (2016: 10%)). A post-tax WACC of above 10% has to be applied before any entity impairment arises. A negative growth rate of greater than -2% has to be applied before any impairment arises.

15. Other intangible assets

2017	Earn out £'000	Software costs £'000	Customer relationships £'000	Total £'000
Cost				
At 1 March 2016	400	3,015	855	4,270
Additions	-	460	-	460
Disposals	-	(11)	-	(11)
At 28 February 2017	**400**	**3,464**	**855**	**4,719**
Accumulated amortisation				
At 1 March 2016	178	2,094	326	2,598
Charge for the year	134	389	91	614
Disposals	-	(11)	-	(11)
At 28 February 2017	**312**	**2,472**	**417**	**3,201**
Net book value at 28 February 2017	**88**	**992**	**438**	**1,518**
Net book value at 29 February 2016	**222**	**921**	**529**	**1,672**

2016	Earn out £'000	Software costs £'000	Customer relationships £'000	Total £'000
Cost				
At 1 March 2015	400	2,704	855	3,959
Additions	-	325	-	325
Disposals	-	(14)	-	(14)
At 29 February 2016	**400**	**3,015**	**855**	**4,270**
Accumulated amortisation				
At 1 March 2015	45	1,775	234	2,054
Charge for the year	133	333	92	558
Disposals	-	(14)	-	(14)
At 29 February 2016	**178**	**2,094**	**326**	**2,598**
Net book value at 29 February 2016	**222**	**921**	**529**	**1,672**
Net book value at 28 February 2015	**355**	**929**	**621**	**1,905**

16. Business combinations

a) Acquisition of Sigma Holdings Limited

On 1 March 2016, the Group acquired the entire issued share capital of Sigma Holdings and its subsidiary Greenoaks (Maidenhead) Limited (together "Greenoaks") which operates three Mercedes-Benz outlets in Reading, Ascot and Slough. Total consideration amounted to £30,743,000 comprising initial consideration of £11,743,000 settled from the Group's existing cash resources, a £10,000,000 bank loan and vendor shareholder loans of £9,000,000 which were settled in cash on completion. The excess of consideration over the provisional fair value of the net assets acquired was £15,650,000 of which £3,771,000 has been allocated to franchise relationships. The financial statements of Greenoaks for the year ended 31 December 2015 show revenues of £87,998,000 and adjusted[1] profit before taxation of £1,200,000.

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

	Fair Value £'000
Intangible assets	3,771
Property, plant and equipment	20,755
Inventories	6,978
Trade and other receivables	2,665
Corporation tax	361
Bank overdraft	(2,156)
Trade and other payables	(10,686)
Deferred tax	(1,739)
Borrowings	(1,085)
Net assets acquired	**18,864**
Goodwill	11,879
Consideration	**30,743**

Acquisition related costs (included in the consolidated income statement for the year ended 28 February 2017) totalled £81,000 in respect of this business.

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

b) Trade and assets of Leeds Jaguar

On 2 May 2016, the Group acquired the business and certain assets of Leeds Jaguar from a subsidiary of Inchcape Plc. The consideration for this acquisition was £592,000 and was settled in cash from the Group's existing resources. The excess of consideration over the provisional fair value of the net assets acquired was £500,000.

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

	Fair Value £'000
Property, plant and equipment	2
Inventories	179
Trade and other payables	(89)
Net assets acquired	**92**
Goodwill	500
Consideration	**592**

Acquisition related costs (included in the consolidated income statement for the year ended 28 February 2017) totalled £15,000 in respect of this acquisition.

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

16. Business combinations (continued)

c) Acquisition of Gordon Lamb Group Limited

On 1 June 2016, the Group acquired the entire issued share capital of Gordon Lamb Group Limited and its subsidiaries, including Gordon Lamb Limited (together "Gordon Lamb") which operates the Toyota, Land Rover, Skoda, and Nissan outlets in Chesterfield and the Skoda outlet in Derby. The estimated consideration amounted to £18,781,000 and was settled in cash from the Group's existing resources. The excess of consideration over the provisional fair value of net assets acquired was £8,961,000 of which £3,207,000 has been allocated to franchise relationships. The financial statements of Gordon Lamb for the year ended 31 December 2015 showed revenues of £85,800,000 and adjusted[1] profit before taxation of £2,700,000.

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

	Fair Value £'000
Intangible assets	3,207
Property, plant and equipment	7,272
Inventories	10,188
Trade and other receivables	1,660
Cash and cash equivalents	2,310
Trade and other payables	(10,808)
Corporation tax	(58)
Deferred tax	(744)
Net assets acquired	**13,027**
Goodwill	5,754
Consideration satisfied in cash	**18,781**

Acquisition related costs (included in the consolidated income statement for the year ended 28 February 2017) totalled £240,000 in respect of this acquisition.

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

If the acquisition of Gordon Lamb Group Limited had occurred on 1 March 2016, Group revenues would have been £30,769,000 higher and Group profit attributable to equity holders would have been £604,000 higher.

Summary of acquisitions' cash consideration

	Cash Consideration £'000	(Cash)/ Borrowings Acquired £'000	Total £'000
Sigma Holdings Limited	30,743	2,156	32,899
Leeds Jaguar	592	-	592
Gordon Lamb Group Limited	18,781	(2,310)	16,471
	50,116	**(154)**	**49,962**

Deferred consideration outstanding at 28 February 2017:

	2017 £'000	2016 £'000
SHG Holdings Limited	1,500	1,500
Other businesses[2]	308	400
	1,808	**1,900**
Maturity of deferred consideration:		
Payable in less than 12 months	1,572	241
Payable in greater than 12 months	236	1,659
	1,808	**1,900**

16. Business combinations (continued)

Summary of the fair value of net assets acquired

	Sigma Holdings Limited £'000	Leeds Jaguar £'000	Gordon Lamb Group Limited £'000	Total £'000
Goodwill and other indefinite life assets	15,650	500	8,961	25,111
Property, plant and equipment	20,755	2	7,272	28,029
Inventories	6,978	179	10,188	17,345
Trade and other receivables	2,665	-	1,660	4,325
Corporation tax	361	-	(58)	303
Cash and cash equivalents	(2,156)	-	2,310	154
Trade and other payables	(10,686)	(89)	(10,808)	(21,583)
Deferred tax	(1,739)	-	(744)	(2,483)
Borrowings	(1,085)	-	-	(1,085)
Net assets acquired	**30,743**	**592**	**18,781**	**50,116**

d) Business disposals

On 1 October 2016, the Group disposed of the trade and certain assets of its Fiat Group dealership in Newcastle which comprised three sales outlets (Fiat, Jeep and Alfa Romeo).

On 31 December 2016, the Group disposed of the trade and certain assets of its SEAT dealership in Barnsley.

On 12 January 2017, the Group disposed of the trade and certain assets of its Peugeot dealership in Worksop.

Details of the fair value of the combined net assets disposed of are as follows:

	Fair Value £'000
Property, plant and equipment	869
Inventories	149
Trade and other receivables	56
Trade and other payables	(199)
Net cash consideration received	**875**

Disposal related costs (included in the consolidated income statement for the year ended 28 February 2017) totalled £38,000 in respect of these disposals.

1 Adjusted for non-recurring and non-corporate items

2 Deferred consideration in respect of "Other businesses" relates to earn out arrangements on the acquisition of ancillary businesses payable in future periods

17. Property, plant and equipment

2017	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 2016	150,191	4,889	6,931	12,351	174,362
Acquisitions**	30,528	-	364	555	31,447
Additions	18,075	1,049	2,076	4,498	25,698
Disposals	(1,297)	(798)	(1,757)	(2,284)	(6,136)
Reclassifications	289	(67)	(112)	(110)	-
At 28 February 2017	**197,786**	**5,073**	**7,502**	**15,010**	**225,371**
Accumulated depreciation and impairment					
At 1 March 2016	12,530	1,995	3,203	6,273	24,001
Depreciation charge	3,597	699	1,576	2,793	8,665
Disposals	(379)	(798)	(1,512)	(2,151)	(4,840)
Reclassifications	82	(40)	(70)	28	-
At 28 February 2017	**15,830**	**1,856**	**3,197**	**6,943**	**27,826**
Net Book Value					
At 28 February 2017	**181,956**	**3,217**	**4,305**	**8,067**	**197,545**
At 29 February 2016	**137,661**	**2,894**	**3,728**	**6,078**	**150,361**

* Includes leasehold improvements and franchise standards property improvements.

** Acquisitions includes business combinations in note 16 together with the purchase of freehold property from which the Group's Honda dealerships in Nottingham and Derby operate, following the acquisition of those businesses in January 2016.

Depreciation expense of £8,665,000 has been charged in operating expenses (note 6).

In addition to the security provided for the Group's bank borrowings, specific charges over freehold land and buildings with a cost of £10,900,000 (2016: £10,900,000) have been granted to manufacturer partners as security against consignment stocking lines.

17. Property, plant and equipment (continued)

2016	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 2015	134,888	3,913	5,280	9,526	153,607
Acquisitions	1,787	150	524	462	2,923
Additions	15,167	1,098	1,534	3,085	20,884
Disposals	(1,387)	(57)	(419)	(606)	(2,469)
Reclassifications	(264)	(215)	12	(116)	(583)
At 29 February 2016	**150,191**	**4,889**	**6,931**	**12,351**	**174,362**
Accumulated depreciation and impairment					
At 1 March 2015	10,106	1,402	2,269	4,677	18,454
Depreciation charge	2,676	650	1,312	2,165	6,803
Disposals	(216)	(57)	(380)	(557)	(1,210)
Reclassifications	(36)	-	2	(12)	(46)
At 29 February 2016	**12,530**	**1,995**	**3,203**	**6,273**	**24,001**
Net Book Value					
At 29 February 2016	**137,661**	**2,894**	**3,728**	**6,078**	**150,361**
At 28 February 2015	**124,782**	**2,511**	**3,011**	**4,849**	**135,153**

18. Subsidiary undertakings

A list of subsidiary undertakings (ordinary shares 100% owned and incorporated within the United Kingdom), as at 28 February 2017 and 29 February 2016 is given in note 6 of the Vertu Motors plc company only financial statements (pages 109 to 111).

19. Inventories

	2017 £'000	2016 £'000
New vehicle stock	385,368	421,704
Used, demonstrator and courtesy vehicles	106,116	94,028
Parts and sundry stocks	14,986	14,639
	506,470	**530,371**

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

	2017 £'000	2016 £'000
Interest bearing consignment stock	34,091	21,611
Stock invoiced not yet paid held by Manufacturers to the order of the Group	305,740	360,193
Other new vehicle stock	45,537	39,900
	385,368	**421,704**

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

The cost of inventories recognised as expense and included within 'cost of sales' amounted to £2,584,811,000 (2016: £2,230,304,000).

20. Property assets held for resale

	2017 £'000	2016 £'000
At beginning of year	537	1,866
Transfers in from freehold property	-	537
Property sold during the year	(537)	(1,866)
At end of year	**-**	**537**

The property sold during the year relates to a compound at Stafford. The property recovered in excess of its carrying value.

21. Trade and other receivables

Current

	2017 £'000	2016 £'000
Trade receivables	40,759	36,814
Less provision for impairment of trade receivables	(1,704)	(1,159)
Trade receivables (net)	**39,055**	**35,655**
Other receivables	6,438	20,676
Prepayments and accrued income	7,052	7,081
	52,545	**63,412**

As at 28 February 2017, trade receivables of £1,844,000 (2016: £1,589,000) were past due but not impaired. The ageing of these receivables are all within 3 months overdue.

As at 28 February 2017, trade receivables of £1,704,000 (2016: £1,159,000) were impaired and provided for.

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

	2017 £'000	2016 £'000
At beginning of year	1,159	1,010
Charge for receivables impairment	918	806
Receivables written off during the year as uncollectible	(48)	(25)
Unused amounts reversed	(325)	(632)
At end of year	**1,704**	**1,159**

21. Trade and other receivables (continued)

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

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

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

Credit Risk Management

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

22. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash in bank and in hand	39,845	43,915

23. Trade and other payables

	2017 £'000	2016 £'000
Current		
Trade payables	529,181	557,057
Social security and other taxes	5,526	4,748
Accruals	44,151	38,450
Deferred income	6,459	5,393
Other payables	25,000	25,500
	610,317	**631,148**

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

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

Accruals includes £11,057,000 (2016: £9,216,000) in respect of outstanding service plans.

24. Borrowings

	2017 £'000	2016 £'000
Current		
Other borrowings	8,671	6,756
	8,671	6,756
Non-current		
Bank borrowings	10,000	13,845
Other borrowings	166	166
	10,166	14,011
	18,837	**20,767**

Borrowings are repayable as follows:

	2017 £'000	2016 £'000
6 months or less	8,671	6,756
6-12 months	-	-
1-5 years	10,166	14,011
	18,837	**20,767**

24. Borrowings (continued)

a) Bank borrowings

The fair value of bank borrowings equals their carrying amount, as the impact of discounting is not significant. Bank borrowings are designated as financial liabilities carried at amortised cost.

During the year ended 28 February 2017, the Group utilised a loan facility of £10,000,000 which was available for nine months and repaid in full on 30 November 2016. The applicable interest rate on this loan was between 1.2% and 1.5% above LIBOR. The Group's £40,000,000 Revolving Credit Facility ("RCF") was also available throughout the year ended 28 February 2017 with an applicable interest rate of between 1.10% and 1.90% above LIBOR depending on the value of the Group's net debt to EBITDA ratio. £10,000,000 of the RCF was drawn at 28 February 2017. A rate of 1.10% above base rate has been applied in relation to overdrafts and a rate of 1.10% above LIBOR has been applied to the Committed Money Market Loan ("CMML") facility. The bank borrowings are secured on the assets of the Company and the Group.

On 27 February 2017 the terms of the facility were extended for a further five year period to include the £40,000,000 RCF at a rate of between 1.3% and 2.1% above LIBOR depending on the Group's net debt to EBITDA ratio, as well as an additional £30,000,000 uncommitted "accordion" facility. The CMML facility of £28,000,000 now rises to £63,000,000 for four peak months of the year. During the year ended 28 February 2017 the facility during these peak months was £53,000,000. The applicable interest rates on the working capital facilities, namely the CMML and overdraft, were unchanged.

The Group had the following undrawn borrowing and overdraft facilities at 28 February 2017:

	2017 £'000	2016 £'000
Floating rate		
- Overdraft (uncommitted) expiring in one year	5,000	5,000
- CMML (committed) facility expiring in one year	63,000	53,000
- Loan facility expiring in one year	-	10,000
- RCF facility expiring in greater than one year *	30,000	26,000
- Used car stocking facility expiring in one year	16,329	13,244
	114,329	**107,244**

* Excludes the uncommitted "accordion facility" referred to above.

b) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £39,845,000 (2016: £43,915,000). The cash deposits comprise deposits placed on money market at call, seven day and cash deposited with counterparty banks at commercially negotiated interest rates.

Trade and other receivables and cash and cash equivalents are designated as loans and receivables, carried at amortised cost. Their fair value is deemed to be equal to their carrying value.

25. 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:

	2017 £'000	2016 £'000
Deferred tax asset to be recovered after more than 12 months	(1,504)	(1,370)
Deferred tax liabilities to be recovered after more than 12 months	7,059	5,820
Deferred tax liabilities (net)	**5,555**	**4,450**

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

2017	Deferred tax liabilities £'000	Deferred tax assets £'000	Net £'000
At 1 March 2016	5,820	(1,370)	4,450
Credited to income statement (note 11)	(388)	(53)	(441)
Credited directly to equity	(937)	-	(937)
Acquisitions (note 16)	2,564	(81)	2,483
At 28 February 2017	**7,059**	**(1,504)**	**5,555**

2016	Deferred tax liabilities £'000	Deferred tax assets £'000	Net £'000
At 1 March 2015	4,982	(1,283)	3,699
Charged / (credited) to income statement	35	(93)	(58)
Charged directly to equity	137	6	143
Acquisitions	666	-	666
At 29 February 2016	**5,820**	**(1,370)**	**4,450**

2017	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Total £'000
At 1 March 2016	1,606	(434)	1,098	2,180	4,450
(Credited) / charged to income statement (note 11)	(431)	(54)	160	(116)	(441)
Acquisitions (note 16)	1,297	-	-	1,186	2,483
Credited directly to equity	-	-	(937)	-	(937)
At 28 February 2017	**2,472**	**(488)**	**321**	**3,250**	**5,555**

2016	Accelerated tax depreciation £'000	Share based payments £'000	Pensions £'000	Other timing differences £'000	Total £'000
At 1 March 2015	1,864	(252)	601	1,486	3,699
(Credited) / charged to income statement	(329)	(182)	56	397	(58)
Acquisitions	71	-	304	291	666
Charged directly to equity	-	-	137	6	143
At 29 February 2016	**1,606**	**(434)**	**1,098**	**2,180**	**4,450**

25. Deferred income tax liabilities (continued)

The 2016 Finance Bill, included provisions to reduce the rate of corporation tax to 17% with effect from 1 April 2020. Accordingly, deferred tax balances have been revalued at the lower rate of 17% in these financial statements.

26. Deferred income due in greater than one year

	2017 £'000	2016 £'000
Warranty income	7,616	6,078
	7,616	**6,078**

Deferred income relates to used car warranty products sold by the Group. These warranty policies can be taken out over 12, 24 or 36 months with income received in advance of this period being released on a straight-line basis over the life of the policies. There is an additional £5,536,000 included in 'deferred income' in current trade and other payables in respect of such warranties recognising the amount to be released over the next 12 months (2016: £4,717,000).

27. Retirement benefit obligations

The Group operates a trust based defined benefit pension scheme, "Bristol Street Pension Scheme", which has three defined benefit sections in which accrual ceased on 31 May 2003. The assets of the scheme are held separately from those of the Group, being held in separate funds by the Trustee of the Bristol Street Pension Scheme.

In the year ended 29 February 2016, the Group acquired a second defined benefit pension scheme, SHG Pension Scheme, with the acquisition of SHG Holdings Limited in the same period. On 27 February 2017, the assets and liabilities of the SHG Pension Scheme were merged into the Bristol Street Pension Scheme.

The following disclosures represent the respective movements in the separate schemes up to 27 February 2017, the date of the scheme merger, and the balance sheet surplus at the 28 February 2017 reflects the position of the merged scheme.

At the balance sheet date, the total Group retirement benefit asset was comprised of the following:

	2017 £'000	2016 £'000
Bristol Street Pension Scheme	1,884	4,424
SHG Pension Scheme	-	1,673
	1,884	**6,097**

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

a) Bristol Street Pension Scheme

Regular employer contributions to the scheme (including contributions paid in respect of scheme expenses) for the year commencing 1 March 2017 are estimated to be £380,000.

The last actuarial valuation upon which the IAS 19 (Revised) figures and disclosures have been based was as at 5 April 2015. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

27. Retirement benefit obligations (continued)

a) Bristol Street Pension Scheme (continued)

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

	Market Value 28 February 2017 £'000	Market Value 29 February 2016 £'000
Equities and Diversified growth funds	24,578	14,942
Bonds	1,731	109
Liability driven Investment Funds	28,635	22,826
Other	164	126
	55,108	**38,003**

The expected return on the assets as at 29 February 2016 was 3.55%. This is equal to the discount rate used in the calculation of the net interest income for the year ended 28 February 2017.

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

	2017 £'000	2016 £'000
Fair value of scheme assets	55,108	38,003
Present value of funded obligations	(53,224)	(33,579)
Asset on the balance sheet	**1,884**	**4,424**

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

	2017 £'000	2016 £'000
Opening fair value of scheme assets	38,003	38,252
Interest income	1,334	1,260
Actuarial gains / (losses)	7,151	(1,203)
Employer contributions	380	919
Benefits paid	(1,242)	(1,063)
Expenses recognised in the income statement	(133)	(162)
Assets acquired in scheme merger	9,615	-
Closing fair value of scheme assets	**55,108**	**38,003**

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

	2017 £'000	2016 £'000
Opening fair value of scheme liabilities	33,579	35,249
Interest cost	1,170	1,146
Actuarial losses / (gains)	8,505	(1,753)
Benefits paid	(1,242)	(1,063)
Liabilities assumed in scheme merger	11,212	-
Closing fair value of scheme liabilities	**53,224**	**33,579**

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

	2017 £'000	2016 £'000
Expenses	133	162
Net interest income (note 10)	(164)	(114)
Total (income) / expense included in income statement	**(31)**	**48**

27. Retirement benefit obligations (continued)

a) Bristol Street Pension Scheme (continued)

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

	2017 £'000	2016 £'000
Expected return on scheme assets	1,334	1,260
Actuarial gains / (losses)	7,151	(1,203)
	8,485	**57**

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

	2017	2016
Discount rate	2.40%	3.55%
Limited Price Indexation ("LPI") pension increases	3.50%	3.10%
Inflation rate	2.50%	2.10%

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:

	2017	2016
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:

	2017	2016
Male	24	23
Female	26	26

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

	2017 £'000	2016 £'000
Actuarial (losses) / gains	(1,354)	550
Related deferred tax liability (note 25)	271	(111)
Total, included within retained earnings	**(1,083)**	**439**
Cumulative actuarial losses	**(2,336)**	**(1,253)**

Sensitivity analysis

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

Change in assumption:	**Approximate impact on current surplus: £'000**
0.25% increase in discount rate	2,319
0.25% decrease in discount rate	(2,441)
0.25% increase in price inflation (and associated assumptions)	(2,089)
0.25% decrease in price inflation (and associated assumptions)	2,053
1 year increase in life expectancy at age 65	(1,652)
1 year decrease in life expectancy at age 65	1,708

Notes to the Consolidated Financial Statements (continued)

27. Retirement benefit obligations (continued)

b) SHG Pension Scheme

Following the transfer of scheme assets and liabilities from the SHG Pension Scheme into the Bristol Street Pension Scheme on 27 February 2017, £192,000 remained in the SHG scheme bank account for administrative purposes in order to meet final payments due to be made from the scheme in March 2017. Subsequent to this, assets and liabilities of £Nil remain in the scheme, and notice of the wind up of the scheme has been issued.

No employer contributions are expected to be paid during the year commencing 1 March 2017.

The last actuarial valuation upon which the IAS19 (Revised) figures have been based was at 31 December 2012. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

The fair value of the assets of the scheme and the expected rates of return on each class of asset at 29 February 2016 and 28 February 2017 were:

	Market Value 28 February 2017 £'000	**Market Value 29 February 2016 £'000**
Diversified Growth Fund	-	7,732
Bonds	-	1,843
Other	192	18
	192	**9,593**

The expected return on the assets as at 29 February 2016 was 3.8%. This is equal to the discount rate used in the calculation of the net interest income for the year ended 28 February 2017.

The overall net surplus between the assets of the SHG defined benefit scheme and the actuarial liabilities of the scheme is as follows:

	28 February 2017 £'000	**29 February 2016 £'000**
Fair value of scheme assets	192	9,593
Present value of funded obligations	(192)	(7,920)
Retirement benefit asset	**-**	**1,673**

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

	2017 £'000	**2016 £'000**
Opening value of scheme assets	9,593	9,557
Interest income	359	148
Actuarial gains / (losses)	138	(71)
Benefits paid	(283)	(41)
Assets transferred in scheme merger	(9,615)	-
Closing fair value of scheme assets	**192**	**9,593**

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

	2017 £'000	**2016 £'000**
Opening fair value of scheme liabilities	7,920	8,037
Interest cost	296	125
Actuarial losses / (gains)	3,471	(201)
Benefits paid	(283)	(41)
Liabilities transferred in a scheme merger	(11,212)	-
Closing fair value of scheme liabilities	**192**	**7,920**

27. Retirement benefit obligations (continued)

b) SHG Pension Scheme (continued)

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

	2017 £'000	2016 £'000
Net interest income (note 10)	63	23
Total, included in income statement	**63**	**23**

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

	2017 £'000	2016 £'000
Expected return on scheme assets	359	148
Actuarial gains / (losses)	138	(71)
	497	**77**

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

	At 28 February 2017	At 29 February 2016
Discount rate	2.40%	3.80%
Limited Price Indexation ("LPI") pension increases	3.50%	3.10%
Inflation rate	2.50%	2.10%

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:

	At 28 February 2017	At 29 February 2016
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:

	At 28 February 2017	At 29 February 2016
Male	24	24
Female	26	26

Amounts recognised in the Consolidated Statement of Comprehensive Income in the period since acquisition are as follows:

	2017 £'000	2016 £'000
Actuarial (losses) / gains	(3,333)	130
Related deferred tax asset / (liability) (note 25)	666	(26)
Total, included within retained earnings	**(2,667)**	**104**
Cumulative actuarial (losses) / gains	**(2,563)**	**104**

28. Ordinary shares, share premium, treasury share reserve and other reserves

2017	Ordinary shares of 10p each Number of Shares ('000)	Ordinary shares £'000	Share premium £'000	Treasury Share reserve £'000	Other reserve £'000	Total £'000
At 1 March 2016	341,270	34,127	96,901	-	10,645	141,673
Shares issued during the year	56,000	5,600	29,400	-	-	35,000
Costs on issuance of shares	-	-	(1,369)	-	-	(1,369)
Purchase of treasury shares	(2,636)	-	-	(1,000)	-	(1,000)
Issuance of treasury shares in satisfaction of exercised LTIP awards	625	-	-	237	-	237
Issuance of treasury shares in satisfaction of exercised CSOP awards	20	-	-	7	-	7
At 28 February 2017	**395,279**	**39,727**	**124,932**	**(756)**	**10,645**	**174,548**

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

2016	Ordinary shares of 10p each Number of Shares ('000)	Ordinary shares £'000	Share premium £'000	Other reserve £'000	Total £'000
At 1 March 2015	340,908	34,091	96,810	10,645	141,546
Shares issued during the year	362	36	91	-	127
At 29 February 2016	**341,270**	**34,127**	**96,901**	**10,645**	**141,673**

Share Option Schemes

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

As disclosed in the Consolidated Income Statement on page 59 a share based payments charge of £1,082,000 (2016: £911,000) has been recognised during the year, in relation to the schemes as described below.

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

Share Option Schemes (continued)

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

Award Date	Type	Granted / Outstanding at 28 February 2017 No of shares	Granted / Outstanding at 29 February 2016 No of shares	Exercise Price	Date from which exercisable	Expiry Date
4 May 2007*	CSOP	111,111	111,111	81.00p	4 May 2010	4 May 2017
13 Jun 2007*	CSOP	77,170	173,633	77.75p	13 Jun 2010	13 Jun 2017
1 Aug 2007*	CSOP	591,549	591,549	71.00p	1 Aug 2010	1 Aug 2017
28 Aug 2007*	CSOP	169,231	169,231	65.00p	28 Aug 2010	28 Aug 2017
7 Sep 2007*	CSOP	136,363	136,363	66.00p	7 Sep 2010	7 Sep 2017
4 Jan 2008*	CSOP	115,000	115,000	40.00p	4 Jan 2011	4 Jan 2018
26 Feb 2008*	CSOP	10,000	10,000	43.00p	26 Feb 2011	26 Feb 2018
21 May 2008*	CSOP	79,200	88,000	44.00p	21 May 2011	21 May 2018
28 Nov 2011*	CSOP	749,230	759,230	26.00p	28 Nov 2014	28 Nov 2021
12 Jun 2012*	CSOP	2,400,000	2,400,000	27.50p	30 Aug 2015	12 Jun 2022
24 Oct 2012*	CSOP	2,530,000	2,560,000	39.25p	30 Aug 2015	24 Oct 2022
20 Aug 2013*	LTIP	107,166	1,461,676	0.00p	20 Aug 2016	20 Aug 2018
30 Oct 2013	CSOP	1,050,000	1,070,000	59.50p	30 Oct 2016	30 Oct 2023
16 May 2014**	LTIP	2,404,665	2,404,665	0.00p	16 May 2017	16 May 2024
5 Nov 2014	CSOP	1,310,000	1,410,000	57.50p	5 Nov 2017	5 Nov 2024
13 Nov 2015	CSOP	2,375,000	2,545,000	74.50p	16 Nov 2018	16 Nov 2025
16 Jun 2015	LTIP	1,128,205	1,128,205	0.00p	16 Jun 2018	16 Jun 2020
5 Sep 2016	LTIP	1,920,289	-	0.00p	5 Sep 2021	5 Sep 2026
13 Oct 2016	CSOP	2,760,000	-	45.38p	13 Oct 2019	13 Oct 2026
		20,024,179	**17,133,663**			

*Vested

** Lapsed in full subsequent to 28 February 2017

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

	2017 No of share options	2016 No of share options
At beginning of year	17,133,663	14,477,113
Granted	4,780,289	3,713,205
Forfeited	(515,263)	(430,000)
Lapsed	(729,376)	-
Exercised – Equity settled	(645,134)	(362,255)
Exercised – Cash settled	-	(264,400)
At end of year	**20,024,179**	**17,133,663**

The weighted average share price during the year was 48.9p (2016: 65.8p). The weighted average fair value of CSOP options granted during the year, determined using the Black-Scholes model was 10p (2016: 11p) per option.

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

Vesting period	3 years
Expected volatility	30%
Option life	7 years
Expected life	5 years
Annual risk-free interest rate	1%
Dividend yield	2%

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

Share Option Schemes (continued)

The weighted average fair value of LTIP options granted during the year, determined using the Black-Scholes model was 46p (2016: 59p) per option.

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

Vesting period	3 years
Expected volatility	30%
Option life	2 years
Expected life	5 years
Annual risk-free interest rate	1%
Dividend yield	2%

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

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

a) Share Incentive Plan ("SIP")

The SIP was introduced in accordance with appropriate legislation and it allows colleagues to invest in partnership shares out of gross salary. A participant may withdraw from the SIP at any time but if he or she 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 or she will incur an income tax liability. The Company currently does not supplement or match the partnership shares acquired by colleagues.

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

The number of vested options issued prior to 24 October 2012, which remain outstanding are shown in the table on page 95.

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

The CSOP options issued on 5 November 2014 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2017 and 31 July 2018 is above 70p and then 100% of the options vest. At an average share price of below 70p none of the options are exercisable.

The CSOP options issued on 16 November 2015 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2018 and 31 July 2019 is above 90p and then 100% of the options vest. At an average share price of below 90p none of the options are exercisable.

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

Share Option Schemes (continued)

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

The following CSOP share options were issued during the financial year to 28 February 2017. None of these options were issued to the Executive Directors of Vertu Motors plc.

2,860,000 CSOP options were issued on 13 October 2016. These options may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2019 and 31 July 2020 is above 75p and then 100% of the options vest. At an average share price of below 75p none of the options are exercisable.

c) Long Term Incentive Plan ("LTIP")

On 20 August 2013 long-term incentive awards of 1,461,676 shares were made to Executive Directors and Senior Managers under the Long Term Incentive Plan ("LTIP"). During the year ended 28 February 2017, 50.10% of these awards vested. The remaining 49.90% of the awards lapsed.

A further 2,404,665 LTIP share awards were issued to Executive Directors and Senior Managers on 16 May 2014. Subsequent to the year ended 28 February 2017 these awards lapsed in full as the performance criteria had not been satisfied.

A further 1,128,205 LTIP share awards were issued to Executive Directors and Senior Managers on 16 June 2015 and may vest in June 2018.

Each tranche of awards to 16 June 2015 took the form of £Nil value share options where the vesting is subject to targets based on the achievement of absolute growth in the Company's total shareholder return ('TSR'), and relative growth in TSR against FTSE small cap index (excluding investment trusts). Further detail on the vesting conditions is given in the Directors Remuneration Report on page 54 of the Financial Statements.

During the year ended 28 February 2017, a further 1,920,289 LTIPs were made to Executive Directors and Senior Managers. The awards were granted on 5 September 2016 and may vest in September 2019.

The awards issued in 2017 took the form of £Nil value share options where the vesting is subject to targets based on the achievement of absolute growth in the Company's total shareholder return ("TSR") and growth in the Group's return on shareholders' equity. The vesting for such awards is measured over a three year period, but the awards are subject to an additional two year holding period before they can be exercised.

29. Hedging reserve

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

	2017 **£'000**	**2016** **£'000**
At beginning of year	-	(17)
Fair value gains on derivative financial instruments during the year	-	23
Deferred taxation on fair value gains during year	-	(6)
At end of year	**-**	**-**

30. Reconciliation of net cash flow to movement in net cash

	2017 £'000	2016 £'000
Net (decrease) increase in cash and cash equivalents	(4,070)	24,661
Cash inflow from proceeds of borrowings	(10,831)	(18,288)
Cash outflow from repayment of borrowings	14,000	4,441
Cash movement in net cash	**(901)**	**10,814**
Borrowings acquired (Note 16(a))	(1,085)	(3,409)
Capitalisation of loan arrangement fees	107	201
Amortisation of loan arrangement fees	(261)	(128)
Non-cash movement in net cash	**(1,239)**	**(3,336)**
Movement in net cash	**(2,140)**	**7,478**
Opening net cash	**23,148**	**15,670**
Closing net cash	**21,008**	**23,148**

31. Cash flow from movement in working capital

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

2017

	Inventories (Note 19) £'000	Current trade and other receivables (Note 21) £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables (Note 23)			(610,317)	
Deferred consideration (Note 16)			(1,808)	
Deferred income (Note 26)			(7,616)	
At 28 February 2017	506,470	52,545	(619,741)	
At 29 February 2016	530,371	63,412	(639,126)	
Balance sheet movement	**23,901**	**10,867**	**(19,385)**	
Acquisitions (Note 16 (a)-(c))	17,345	4,325	(21,583)	
Disposals (Note 16 (d))	(149)	(56)	199	
Movement excluding business combinations	**41,097**	**15,136**	**(40,769)**	**15,464**
Pension related balances				(247)
Decrease in capital creditors				736
Decrease in interest accrual				87
Movement as shown in Consolidated Cash Flow Statement				**16,040**

31. Cash flow from movement in working capital (continued)

2016

	Inventories £'000	Current trade and other receivables £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(631,148)	
Deferred consideration			(1,900)	
Deferred income			(6,078)	
At 29 February 2016	530,371	63,412	(639,126)	
At 28 February 2015	394,287	53,500	(466,865)	
Balance sheet movement	**(136,084)**	**(9,912)**	**172,261**	
Acquisitions	15,995	2,735	(11,669)	
Disposals	(164)	(15)	88	
Deferred consideration for acquisitions in the year	-	-	(1,500)	
Movement excluding business combinations	**(120,253)**	**(7,192)**	**159,180**	**31,735**
Pension related balances				(756)
Increase in capital creditors				(447)
Increase in interest accrual				(17)
Movement as shown in Consolidated Cash Flow Statement				**30,515**

32. Contingencies

Contingent liabilities

Under sections 394A and 479A of the Companies Act 2006, the parent company Vertu Motors plc has guaranteed all outstanding liabilities to which the subsidiaries listed on page 64 were subject at the end of 28 February 2017 until they are satisfied in full. These liabilities total £617,304,000 (2016: £626,896,000), including intercompany loans of £120,190,000 (2016: £121,974,000). Such guarantees are enforceable against Vertu Motors plc by any person to whom any such liability is due.

33. Commitments

a) Capital Commitments

Capital commitments in respect of property, plant and equipment amounting to £3,242,000 were outstanding as at 28 February 2017 (2016: £6,306,000).

33. Commitments (continued)

b) Operating Lease Commitments

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

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

	2017		2016	
	Property £'000	Vehicles, plant and equipment £'000	Property £'000	Vehicles, plant and equipment £'000
Commitments under non-cancellable operating leases payable:				
No later than 1 year	8,772	3,413	8,505	2,732
Later than 1 year and no later than 5 years	30,825	1,033	30,388	750
Later than 5 years	37,211	-	42,388	-
	76,808	**4,446**	**81,281**	**3,482**

34. Related party transactions

Key management personnel are defined as the Directors of the Company. The remuneration of the Directors who served during the year ended 28 February 2017 is set out in the Directors' Remuneration Report on pages 52 to 56.

Robert Forrester and Peter Jones sit on the board of Trusted Dealers Limited as unpaid non-Executive Directors. Trusted Dealers Limited operates a used car sales website. In the year ended 28 February 2017, the value of services provided by Trusted Dealers Limited to the Group was £60,000 (2016: £60,000). No outstanding balances were due to Trusted Dealers Limited in respect of these services at 28 February 2017 (2016: £Nil).

Nigel Stead, a Director of the Company also sits on the Board of Prohire plc. The Group sells vehicles and provides aftersales services to Prohire plc on normal commercial terms. In the year ended 28 February 2017, sales of vehicles to Prohire plc totalled £66,000 (2016: £Nil). The value of aftersales services invoiced in the same period was £26,000 (2016: £Nil). £2,000 was unpaid at 28 February 2017 in respect of these supplies (2016: £Nil).

William Teasdale, a Director of the Company also sits on the Board of Remedios Limited. Remedios Limited provides environmental investigation services to the Group on normal commercial terms. In the year ended 28 February 2017, the value of such services provided was £33,000 (2016: £25,000). £Nil was unpaid at 28 February 2017 in respect of these services received (2016: £10,000).

During the year to 28 February 2017, Robert Forrester, Michael Sherwin, Peter Jones, Bill Teasdale, Nigel Stead and Pauline Best bought and sold vehicles from and to the Group. The value of these transactions for the year ended 28 February 2017 and the year ended 29 February 2016 is presented below. No profit or loss was made in respect of these transactions in the year ended 28 February 2017 or the year ended 29 February 2016. All of these transactions were pursuant to an employee vehicle ownership plan available to Executive Directors and certain Senior Managers. No outstanding balances were due to or from the Group in respect of these transactions at 28 February 2017 (2016: £Nil).

34. Related party transactions (continued)

2017

	Bought from the Group		Sold to the Group	
	Number of vehicles	Purchase price £'000	Number of vehicles	Sale price £'000
Robert Forrester	5	339	5	330
Michael Sherwin	5	216	5	227
Peter Jones	2	180	2	177
Bill Teasdale	3	210	3	216
Nigel Stead	4	249	4	251
Pauline Best	3	212	2	144

2016

	Bought from the Group		Sold to the Group	
	Number of vehicles	Purchase price £'000	Number of vehicles	Sale price £'000
Robert Forrester	4	199	4	232
Michael Sherwin	5	289	5	288
Peter Jones	3	277	3	267
Bill Teasdale	1	71	2	142
Nigel Stead	1	71	2	141

35. Post balance sheet events

On 31 March 2017, the Group disposed of the trade and certain assets of its Peugeot dealership in Chesterfield to Decidebloom Limited, trading as Stoneacre. The Group still owns the freehold property from which the dealership operates.

Independent Auditors' Report to the members of Vertu Motors Plc

Report on the Company financial statements

Our opinion

In our opinion, Vertu Motors plc's Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 28 February 2017;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements included within the Annual Report and Financial Statements (the "Annual Report") comprise:

- the Company balance sheet as at 28 February 2017;
- the Company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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

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

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Other matter

We have reported separately on the group financial statements of Vertu Motors plc for the year ended 28 February 2017.

Randal Casson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
10 May 2017

Company Balance Sheet

As at 28 February 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible assets	5	3,978	3,040
Investments	6	153,397	112,990
		157,375	**116,030**
Current assets			
Debtors	7	136,294	131,070
Cash at bank and in hand		28,293	25,986
Total current assets		**164,587**	**157,056**
Creditors: amounts falling due within one year	9	**(70,619)**	**(66,037)**
Net current assets		**93,968**	**91,019**
Total assets less current liabilities		**251,343**	**207,049**
Creditors: amounts falling due after more than one year	10	**(17,852)**	**(21,584)**
Net assets		**233,491**	**185,465**
Capital and reserves			
Called up share capital	12	39,727	34,127
Share premium account	12	124,932	96,901
Other reserve	12	10,645	10,645
Treasury share reserve	12	(756)	-
Profit and loss account:	14		
At 1 March		43,792	25,415
Profit for the year		19,726	21,519
Other changes in retained earnings		(4,575)	(3,142)
		58,943	43,792
Total shareholders' funds		**233,491**	**185,465**

These financial statements, on pages 104 to 115, have been approved for issue by the Board of Directors on 10 May 2017:

Robert Forrester
Chief Executive

Michael Sherwin
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 28 February 2017

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Profit and loss account £'000	Total Equity £'000
As at 1 March 2016	**34,127**	**96,901**	**10,645**	**-**	**43,792**	**185,465**
Profit for the year	-	-	-	-	19,726	19,726
Total comprehensive income for the year	-	-	-	-	19,726	19,726
New ordinary shares issued	5,600	29,400	-	-	-	35,000
Cost of issuance of ordinary shares	-	(1,369)	-	-	-	(1,369)
Purchase of treasury shares	-	-	-	(1,000)	-	(1,000)
Treasury shares issued	-	-	-	244	(237)	7
Dividend paid	-	-	-	-	(5,353)	(5,353)
Share based payments charge	-	-	-	-	1,015	1,015
As at 28 February 2017	**39,727**	**124,932**	**10,645**	**(756)**	**58,943**	**233,491**

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

For the year ended 29 February 2016

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total Equity £'000
As at 1 March 2015	**34,091**	**96,810**	**10,645**	**(17)**	**25,415**	**166,944**
Profit for the year	-	-	-	-	21,519	21,519
Tax on items taken directly to equity	-	-	-	(6)	-	(6)
Fair value gains	-	-	-	23	-	23
Total comprehensive income for the year	-	-	-	17	21,519	21,536
New ordinary shares issued	36	91	-	-	-	127
Dividend paid	-	-	-	-	(3,923)	(3,923)
Share based payments charge	-	-	-	-	781	781
As at 29 February 2016	**34,127**	**96,901**	**10,645**	**-**	**43,792**	**185,465**

Notes to the Company Financial Statements

For the year ended 28 February 2017

1. Accounting Policies

Statement of compliance

The separate financial statements of Vertu Motors plc, the parent undertaking, have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.

The Company has taken advantage of the following exemptions in paragraph 1.12 of FRS 102:

- from preparing a statement of cash flows and related notes, on the basis that it is a qualifying entity and the consolidated statement of cash flows of Vertu Motors plc includes the Company's cash flows,
- certain disclosures in relation to financial instruments,
- certain disclosures in relation to share based payments; and
- from disclosing the Company key management personnel compensation.

Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of derivative financial instruments to fair value.

The principal accounting policies, which have been consistently applied throughout the year, are set out below.

No profit and loss account is presented by the Company, as permitted under section 408 of the Companies Act 2006. The profit of the Company for the year ended 28 February 2017 was £19,726,000 (2016: £21,519,000).

The consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 109 to 111 of these financial statements. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 28 February 2017 by virtue of s479A of Companies Act 2006. Certain other subsidiaries, which are also listed below, have taken the exemption from preparing individual accounts for the year ended 28 February 2017 by virtue of s394A of Companies Act 2006. In order to allow these subsidiaries to take the audit exemption or exemption from the preparation of individual accounts (as appropriate), the Company has given a statutory guarantee of all the outstanding liabilities as at 28 February 2017 of the subsidiaries listed below, further detail of which is provided in note 32 to the consolidated financial statements on page 99.

The subsidiaries which have taken an exemption from an audit for the year ended 28 February 2017 by virtue of s479A Companies Act 2006 are:

Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Vertu Motors (Knaresborough) Limited
All Car Parts Limited
Aceparts Limited (formerly Whos Ace Holdings Limited)
SHG Holdings Limited
Gordon Lamb Group Limited
International Concessionaires Limited
Vertu Motors Property 2 Holdings Limited
South Hereford Garages Trade Parts LLP
Macklin Property Limited
Tyne Tees Finance Limited
Grantham Motor Company Limited
Vertu Motors (Property) Limited
Albert Farnell Limited
South Hereford Garages Limited
Why Pay More For Cars Limited
Vertu Motors (Property 2) Limited
Blacks Autos Limited

1. Accounting Policies (continued)

Basis of preparation (continued)

The subsidiaries which have taken an exemption from the preparation of individual accounts in respect of the year ended 28 February 2017 by virtue of s394A of Companies Act 2006 are:

Blake Holdings Limited
Bristol Street (No.1) Limited
Bristol Street (No.2) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
BSH Pension Trustee Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
Dunfermline Autocentre Limited
Widnes Car Centre (1994) Limited
Compare Click Call Limited
K C Motability Solutions Limited
Bristol Street Commercials (Italia) Limited
Newbolds Garage (Mansfield) Limited
Hillendale LR Limited
Hillendale Group Limited
National Allparts Limited
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (Finance) Limited
Vertu Motors (Retail) Limited
Boydslaw 103 Limited
Vertu Motors (Pity Me) Limited
Widnes Car Centre Limited
Vertu Motors (Durham) Limited
Dobies (Carlisle) Limited
Vertu Motors (AMC) Limited
Brookside (1998) Limited
Nottingham TPS LLP
Easy Vehicle Finance Limited
The Taxi Centre Limited

The auditors' remuneration for audit and other services was £25,000 (2016: £25,000).

Tangible fixed assets

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

Computer equipment	16.6% - 50%
Office equipment	25%

Investments

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

Deferred taxation

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

A 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 sufficient taxable profits from which the future reversal of the underlying timing differences can be deducted.

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 income

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

1. Accounting Policies (continued)

Deferred income (continued)

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

Revenue

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

Share based payments

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

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

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

Leases

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

2. Critical accounting estimates and judgements

The Company 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 fixed asset investments

The Company tests annually, or whenever events or changes in circumstances occur, to determine whether the fixed asset investments held have suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Share based payments

Share options issued to certain employees are measured at fair value at the grant date using a fair value model, and are expensed on a straight-line basis over the vesting period based on an estimate of the number of options which will vest. The key assumptions of this model are disclosed in note 28 of the Vertu Motors plc consolidated financial statements.

3. Employee benefit expense

	2017 £'000	2016 £'000
Wages and salaries	11,608	10,971
Social security costs	1,514	1,404
Pension costs – defined contribution plans	1,308	1,089
	14,430	**13,464**
Share based payments charge (note 16)	1,082	911
	15,512	**14,375**

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

	2017 Number	2016 Number
Sales	98	93
Service	18	21
Administration	355	288
	471	**402**

5. Tangible assets

	Computer equipment £'000	Office equipment £'000	Total £'000
Cost			
At 1 March 2016	8,227	613	8,840
Additions	2,489	86	2,575
Disposals	(257)	(16)	(273)
At 28 February 2017	**10,459**	**683**	**11,142**
Accumulated Depreciation			
At 1 March 2016	5,415	385	5,800
Depreciation charge	1,688	85	1,773
Disposals	(393)	(16)	(409)
At 28 February 2017	**6,710**	**454**	**7,164**
Net Book Value			
At 28 February 2017	**3,749**	**229**	**3,978**
At 29 February 2016	**2,812**	**228**	**3,040**

6. Fixed asset investments

	2017 £'000
Cost	
At 1 March 2016	115,390
Additions	40,407
At 28 February 2017	**155,797**
Accumulated impairment charges	
At 1 March 2016 and 28 February 2017	**2,400**
Net Book Value	
At 29 February 2017	**153,397**
At 28 February 2016	**112,990**

Vertu Motors plc, the Company, as at 28 February 2017 and 29 February 2016, invested in 100% of the ordinary share capital of the following subsidiary undertakings, incorporated in the United Kingdom:

Company	**Principal activity**
The registered office address of the following companies is Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead, Tyne & Wear, NE11 0XA:	
Bristol Street First Investments Limited	Motor retailer
Bristol Street Fourth Investments Limited	Motor retailer
Vertu Motors (VMC) Limited	Motor retailer
Grantham Motor Company Limited	Motor retailer
Vertu Motors (Chingford) Limited	Motor retailer
Albert Farnell Limited	Motor retailer
South Hereford Garages Limited *	Motor retailer
Tyne Tees Finance Limited *	Motor retailer
South Hereford Garages Trade Parts LLP *	Parts retailer
Vertu Motors Third Limited	Online advertising
All Car Parts Limited *	Online parts retailer

6. Fixed asset investments (continued)

Company	Principal activity
Macklin Property Limited	Property company
Vertu Motors (Property) Limited	Property company
Vertu Motors (Knaresborough) Limited	Property company
Vertu Motors (Property 2) Limited *	Property company
BSH Pension Trustee Limited *	Pension scheme trustee
Vertu Motors (Finance) Limited	Finance company
Vertu Motors (Durham) Limited *	Holding company (dormant subsidiaries)
Bristol Street Fifth Investments Limited *	Holding company (dormant subsidiaries)
Blake Holdings Limited *	Holding company (dormant subsidiaries)
Bristol Street Group Limited *	Holding company
Widnes Car Centre (1994) Limited *	Holding company (dormant subsidiaries)
Brookside (1998) Limited *	Holding company (dormant subsidiaries)
Hillendale Group Limited	Holding company (dormant subsidiaries)
Aceparts Limited (formerly Whos Ace Holdings Limited)	Holding company
SHG Holdings Limited	Holding company
Vertu Motors (Pity Me) Limited *	Dormant company
Bristol Street Commercials (Italia) Limited	Dormant company
Vertu Fleet Limited	Dormant company
Vertu Motors (Retail) Limited	Dormant company
Bristol Street Fleet Services Limited *	Dormant company
Vertu Motors (AMC) Limited	Dormant company
Motor Nation Car Hypermarkets Limited	Dormant company
Bristol Street Limited *	Dormant company
Bristol Street (No. 1) Limited *	Dormant company
Bristol Street (No. 2) Limited *	Dormant company
National Allparts Limited *	Dormant company
Merifield Properties Limited *	Dormant company
Peter Blake Limited *	Dormant company
Peter Blake (Chatsworth) Limited *	Dormant company
Peter Blake (Clumber) Limited *	Dormant company
Typocar Limited	Dormant company
Widnes Car Centre Limited *	Dormant company
KC Mobility Solutions Limited *	Dormant company
Compare Click Call Limited	Dormant company
Dobies (Carlisle) Limited *	Dormant company
Newbolds Garages (Mansfield) Limited *	Dormant company
Nottingham TPS LLP *	Dormant company
Hillendale LR Limited *	Dormant company
Blacks Autos Limited *	Dormant company
Alpha Banbury *	Dormant company
Alpha Birmingham *	Dormant company
Alpha Bromley *	Dormant company
Alpha Cheltenham*	Dormant company
Alpha Huddersfield *	Dormant company
Alpha Ilford *	Dormant company
Alpha Leeds *	Dormant company
Alpha Newcastle *	Dormant company
Alpha Nottingham *	Dormant company
Alpha Parts *	Dormant company
Alpha Poole *	Dormant company
Alpha Romford *	Dormant company
Alpha Ruislip *	Dormant company
Alpha Sherwood *	Dormant company
Alpha Shirley *	Dormant company
Alpha Southampton *	Dormant company
Alpha Stamford *	Dormant company
Alpha Stourbridge *	Dormant company
Alpha Sunderland *	Dormant company
Alpha Worcester *	Dormant company

6. Fixed asset investments (continued)

Company	Principal activity
Dispose Seton (No 2) *	Dormant company
Jessups Motor Group *	Dormant company
Alpha Bournemouth Limited *	Dormant company
Alpha Cramlington Limited *	Dormant company
Alpha Jessups Limited *	Dormant company
Alpha Stamford Hill Limited *	Dormant company
Alpha Stanley Limited *	Dormant company
Fleet Datascan Limited *	Dormant company
Milehire Limited *	Dormant company
Seton House Manchester Limited *	Dormant company

The registered address of the following companies is Dunfermline Autocentre, Halbeath Road, Dunfermline, Fife, KY12 7RD

Boydslaw 103 Limited *	Holding company (dormant subsidiaries)
Dunfermline Autocentre Limited *	Dormant company

The registered address of the following companies is Peugeot Paisley, Saturn Avenue, Pheonix Retail Park, Paisley, PA1 2BH

The Taxi Centre Limited *	Dormant company
Easy Vehicle Finance Limited *	Dormant company

Furthermore, the following subsidiary undertakings (ordinary shares 100% owned and incorporated within United Kingdom), were acquired in the year ended 28 February 2017 (registered office address: Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead Tyne and Wear, NE11 0XA):

Company	Principal activity
Sigma Holdings Limited	Holding company
Greenoaks (Maidenhead) Limited *	Motor retailer
Gordon Lamb Group Limited	Holding company
Gordon Lamb Holdings Limited * ^	Holding company
Gordon Lamb Limited * ^	Motor retailer
Why Pay More For Cars Limited *	Dormant company
International Concessionaires Limited *	Dormant company

* Held indirectly by the Company.

^ On 31 July 2016 the trade and assets of this subsidiary were transferred to other wholly owned subsidiaries of the Group, thereafter this subsidiary ceased to trade.

And the following subsidiary undertaking (ordinary shares 100% owned and incorporated within United Kingdom) was incorporated during the year ended 28 February 2017 (registered office address: Vertu House, Fifth Avenue Business Park, Team Valley, Gateshead Tyne and Wear, NE11 0XA):

Company	Principal activity
Vertu Motors Property 2 Holdings Limited	Holding company

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

7. Debtors

	2017	**2016**
	£'000	**£'000**
Trade debtors	1,388	2,167
Amounts owed by Group undertakings	127,794	122,817
Deferred tax asset (note 8)	1,126	815
Value Added Tax	2,153	1,768
Prepayments and accrued income	3,833	3,503
	136,294	**131,070**

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

8. Deferred tax asset

	2017 £'000	2016 £'000
At beginning of year	815	794
Credited to the profit and loss account	311	27
Charged directly to equity	-	(6)
At end of year	**1,126**	**815**

The amounts recognised for deferred tax assets, calculated under the liability method at 17% (2016: 18%) are set out below:

	2017 £'000	2016 £'000
Depreciation in excess of capital allowances	372	293
Other short term timing differences	754	522
Total	**1,126**	**815**

During the year ending 28 February 2018, the reversal of deferred tax assets is expected to decrease the corporation tax charge for the year by £88,000. This is primarily due to timing differences in relation to depreciation in excess of capital allowances.

9. Creditors: amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	6,387	6,744
Other creditors	25,000	25,500
Corporation tax	2,909	2,644
Deferred consideration	1,571	241
Other taxation and social security	4,307	3,674
Accruals	23,986	21,841
Deferred income	6,459	5,393
	70,619	**66,037**

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

Accruals includes £11,057,000 (2016: £9,216,000) in respect of outstanding service plans.

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

	2017 £'000	2016 £'000
Bank borrowings	10,000	13,845
Deferred consideration	236	1,659
Deferred income (note 11)	7,616	6,080
	17,852	**21,584**

Borrowings are repayable as follows:	2017 £'000	2016 £'000
Under 1 year	-	-
1-2 years	-	-
2-5 years	10,000	13,845
	10,000	**13,845**

The bank borrowings are secured on the assets of the Company and the Group. The table below analyses the Company's financial liabilities 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 amounts as the impact of discounting is not significant.

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

	Within one year £'000	Within two to five years £'000	Total £'000
Bank borrowings	-	10,000	10,000
Trade and other creditors	70,619	7,852	78,471
At 28 February 2017	**70,619**	**17,852**	**88,471**

	Within one year £'000	Within two to five years £'000	Total £'000
Bank borrowings	-	13,845	13,845
Trade and other creditors	66,037	7,739	73,776
At 29 February 2016	**66,037**	**21,584**	**87,621**

11. Deferred income

Deferred income due in greater than one year comprises:

	2017 £'000	2016 £'000
Warranty income	7,616	6,080
	7,616	**6,080**

Deferred income relates to used car warranty products sold by the Group. These warranty policies can be taken out over 12, 24 or 36 months with income received in advance of this period being released on a straight-line basis over the life of the policies. There is an additional £5,536,000 included in 'Deferred income' in creditors: amounts falling due within one year, in respect of such warranties recognising the amount to be released over the next 12 months (2016: £4,717,000).

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

2017	Ordinary shares of 10p each Number of Shares ('000)	Called up Share capital £'000	Share premium account £'000	Treasury Share Reserve £'000	Other Reserve £'000	Total £'000
At 1 March 2016	341,270	34,127	96,901	-	10,645	141,673
Shares issued during the year	56,000	5,600	29,400	-	-	35,000
Cost of issuance of ordinary shares	-	-	(1,369)	-	-	(1,369)
Purchase of treasury shares	(2,636)	-	-	(1,000)	-	(1,000)
Issuance of treasury shares	645	-	-	244	-	244
At 28 February 2017	**395,279**	**39,727**	**124,932**	**(756)**	**10,645**	**174,548**

All issued shares are fully paid-up.

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

2016	Ordinary shares of 10p each Number of Shares ('000)	Called up Share capital £'000	Share premium account £'000	Other Reserve £'000	Total £'000
At 1 March 2015	340,908	34,091	96,810	10,645	141,546
Shares issued during the year	362	36	91	-	127
At 29 February 2016	**341,270**	**34,127**	**96,901**	**10,645**	**141,673**

Notes to the Company Financial Statements (continued)

13. Hedging reserve

	2017 £'000	2016 £'000
Cash flow hedges:		
At beginning of year	-	(17)
Fair value gains on derivative financial instruments during the year	-	23
Deferred taxation on fair value gains during year	-	(6)
At end of year	**-**	**-**

14. Profit and loss account

	2017 £'000	2016 £'000
As at beginning of year	43,792	25,415
Profit for the financial year	19,726	21,519
Dividend paid	(5,353)	(3,923)
Share based payments charge	1,015	781
Treasury shares issued	(237)	-
As at end of year	**58,943**	**43,792**

The issue of treasury shares in the period was in satisfaction of the exercise to certain executive directors and senior managers of vested options under the Company's Long Term Incentive Plan.

15. Dividends per share

Dividends of £5,353,000 were paid in the year to 28 February 2017 (2016: £3,923,000), 1.35p per share (2016: 1.15p). A final dividend in respect of the year ended 28 February 2017 of 0.90p per share, is to be proposed at the annual general meeting on 26 July 2017. The ex-dividend date will be 29 June 2017 and the associated record date 30 June 2017. This dividend will be paid on 31 July 2017 and these financial statements do not reflect this final dividend payable.

16. Share based payments

For details of share based payment awards and fair values, see note 28 to the consolidated financial statements. The Company accounts include a share based payments charge for the year of £1,082,000 (2016: £911,000).

17. Contingencies

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

18. Directors' Remuneration

The remuneration of the Directors who served during the year from 1 March 2016 to 28 February 2017 is set out within the Directors' Remuneration Report on pages 52 to 56.

19. Commitments

The Company leases vehicles under non-cancellable operating lease agreements.

The future aggregate minimum lease payments under non-cancellable operating leases is set out below:

Commitments under non-cancellable operating leases payable:	2017 Vehicles £'000	2016 Vehicles £'000
No later than 1 year	395	326
Later than 1 year and no later than 2 years	121	116
Later than 2 years but no later than 5 years	18	-
	534	**442**

20. Related party transactions

The Company has related party relationships with its subsidiaries and with key management personnel.

Transactions with the Directors of the Company are disclosed in note 34 of the consolidated financial statements.

During the financial year ended 28 February 2017, the Company made cash contributions of £380,000 into the Bristol Street Pension Scheme (2016: £380,000). Under the terms of the recovery plan as agreed between the Company and the Trustees, these contributions will continue until 31 March 2018.

Vertu
Motors plc

Registered Office:
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Fifth Avenue Business Park,
Team Valley, Gateshead,
Tyne and Wear, NE11 0XA
Company Number: 05984855
www.vertumotors.com