Vertu Motors plc

ANNUAL REPORT & FINANCIAL STATEMENTS

For the year ended 29 February 2020

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Financial Diary

Annual General Meeting	20 August 2020
Interim Results 2020/21	7 October 2020
Final Results 2020/21	May 2021

Chairman's Statement

This is not the report I envisaged writing when the financial year under review ended on the 29 February 2020 with recent months dominated by the impact of the COVID-19 virus. Despite well publicised industry headwinds, the Group delivered a robust underlying trading result. The outcome is even more pleasing as it has absorbed trading losses and acquisition costs relating to the businesses acquired in January and February 2020. Year-on-year growth in trading performance, excluding the impact of these acquisitions was delivered.

The Group at present faces a fundamental challenge posed by the global COVID-19 pandemic. The effects of reduced mobility and the temporary closure of Group's sales showrooms has had a significant impact on the Group in the post year end period. The lockdown on 24 March commenced during the sector's most significant month for activity and profitability. Immediate actions were taken to protect colleagues and customers in applying the requirements of Government to close all the Group's vehicle sales showrooms and physical sales activity. The bulk of the Group's vehicle service and repair operations remained open, at reduced capacity, in order to keep key workers and other essential vehicles on the road. In mid-May, following the relaxation of the lockdown, service operations were extended to all customers and the Group commenced a vehicle delivery service for vehicle sales from dealerships in line with revised English guidelines. Showroom activity in England recommenced from 1 June.

Considering the ongoing situation, and to preserve cash, the Board does not recommend a final dividend for the year ended 29 February 2020. The Board recognises the importance of dividends in delivering shareholder value and will consider resumption of dividend payments in due course.

The Board has taken sensible steps around Executive remuneration and cash preservation. The strong balance sheet has aided the ability of the business to withstand the current crisis. Banking covenants have been waived and significant liquidity is in place, aided by the support of the Group's banks and Manufacturer Partners.

Prior to the spread of the virus from China, the UK automotive retail sector already faced a series of challenges in FY20. These included new vehicle supply constraints, driven by continued weakness in Sterling and EU Worldwide Harmonised Light Vehicle Test Procedure ("WLTP") regulations, which applied to commercial vehicles for the first time in 2019, political uncertainty around the exit of the UK from the EU impacting consumer confidence and continued cost pressures.

Whilst we believe the pandemic will eventually pass or be controlled, we do not know exactly what the longer-term impacts on the sector and business will be. It is possible that the aftermath will see reversals to sector trends in some areas and an acceleration of others. It is likely that the growth in importance of omni-channel retailing and digital channels will be accelerated and the Group is well-positioned for this change. Financial pressures on already stressed businesses in the sector, could lead to an acceleration of much needed franchise retailer capacity reductions in the UK and this should enhance volumes and returns for those remaining. We expect that those businesses in the sector with scale, strong brands, stable and experienced management and financial resilience will be net beneficiaries from these trends.

The Board, in late 2019, agreed the following strategic imperatives for the Group and considers that they remain critical and highly relevant in the new environment the business finds itself in today:

- To grow as a major scaled franchised dealership group and to develop our portfolio of Manufacturer partners, whilst being mindful of industry development trends, to maximise long-run returns.
- To be at the forefront of omni-channel retailing and digitalisation in the sector, delivering a cohesive 'bricks and clicks' strategy.
- To reduce the cost base of the Group through scale economies and using digitalisation of processes to reduce costs.
- To develop and motivate the Group's colleagues to ensure consistency of operational delivery across the business.
- To develop ancillary businesses to add revenue and returns which complement the core business.

Chairman's Statement (continued)

Our aims are to deliver outstanding customer service and to build long-term value through the delivery of sustainable growth in cash flows and earnings per share. It is imperative that this is done alongside the constant application of the Group's Core Values to foster trust with all stakeholders be they colleagues, customers, investors or Manufacturer partners. The Group is very well positioned to do this and the current crisis, in all likelihood, will enhance the speed of change and provides a clear opportunity to continue to deliver on our strategy.

I would like to take this opportunity to thank all the management and colleagues for their professionalism and fortitude to deliver the result for the financial year and to react positively to the impacts of the pandemic.

Andrew Goss
Chairman

Highlights

OPERATIONAL AND OUTLOOK HIGHLIGHTS

- Adjusted[1] profit before tax of £23.5m in line with expectations, despite absorbing costs and losses of £0.7m in relation to recent acquisitions (2019: £23.7m)
- 12 sales outlets added in year including the addition of 3 new franchise partners to the Group's portfolio
- Strong management, supported by scalable, sector-leading in-house developed systems, provides assurance of tight control of operations and swift execution of strategies
- Deployment of new technologies accelerating progress in both omni-channel retailing and increasing efficiency in transaction processing across the business
- Meticulous planning undertaken for the re-opening of dealerships in a safe and socially distanced way
- Strong balance sheet with low debt levels results in significant liquidity being in place, aided by supportive banks and Manufacturer partners
- Group is very well positioned to take a larger role in the sector through consolidation and growth opportunities and has the ambition to do so

FINANCIAL HIGHLIGHTS

- £82.3m (2.8%) growth in revenues to £3.1bn, with like-for-like revenue growth of 1.2%
- Excellent aftersales performance with like-for-like revenue growth of 4.6% delivering a 5.9% growth in gross profit
- Stable used vehicle volume and margins delivered, despite pricing volatility in first half and absorption of additional preparation charges from aftersales
- Like-for-like fleet and commercial revenue growth of 5.3% delivering £5.6m additional total gross profit
- Strong cost control exhibited with like-for-like operating expense growth of 1.4% (2019: 4%) and total underlying operating expenses representing 10.0% of revenues (2019: 9.9%)
- Growth in Adjusted[1] operating profit to £29.1m (2019: £27.4m)
- Non-cash impairment charge of £14.4m included in non-underlying charges
- Profit before tax of £7.3m (2019: £25.3m)
- Underlying earnings per share increased to 5.12p (2019: 5.10p)
- No final dividend is recommended
- Net tangible assets per share of 46.0p (2019: 44.9p)
- Adjusted[2] net debt of £2.8m at 29 February 2020 (2019: net cash £22.9m)

[1] Excludes non-underlying items

[2] Excludes amounts drawn on used vehicle stocking loans

Given the heightened uncertainty of any forecast at this current time it is inappropriate to provide any guidance with respect to market expectations

Strategic Report

This report seeks to inform all stakeholders on how the Group has performed in the year to 29 February 2020 and to review the challenges the Group faces, the opportunities available to exploit and explains how the business will be managed going forward. Clearly the Group's current position is dominated by the impact of COVID-19 in the United Kingdom and this is addressed later in the report. The financial overview section includes a detailed analysis of financial and operational performance.

The year saw the Group move forward significantly in terms of its key strategic objectives. Despite sector wide trading headwinds, the Group delivered a robust financial result with Adjusted profit before tax of £23.5m (2019: £23.7m). This result was after absorbing £0.7m of trading losses and acquisition costs from the additional 12 sales outlets added to the Group in the early part of 2020.

Profit before tax reduced from £25.3m to £7.3m, largely reflecting a significant non-cash impairment of £14.4m in relation to intangible and tangible assets. This impairment reflected revised cash flow forecasts in the light of the impact of COVID-19 on anticipated future cash flows. This impairment was predominantly in relation to goodwill relating to the Group's Mercedes-Benz operations and a freehold property operating the Vauxhall franchise.

The Group's Adjusted operating profit rose from £27.4m to £29.1m bearing witness to the strong operational execution of the Group in the year, despite headwinds. Higher manufacturer new vehicle stocking charges in the year contributed to a rise in net finance charges of £1.9m which resulted in the reported decline in adjusted profit before tax. The stocking charge increase arose due to higher consignment stock pipelines in anticipation of Brexit and higher interest rates.

This financial result reflected the inherent strength of the Group with its stable management team, strong culture and increasingly sophisticated in-house digital systems platform. The Group has a clear strategy and is executing it.

Execution of Strategy

Progress made during the year towards the delivery of the Group's strategic imperatives is outlined below, together with an assessment of the changing environment in which the Group operates and how the business has and intends to react.

Growth

Importance of Scale and Brand

Manufacturers rely upon their retail franchise dealer network to deliver their products to end users and to provide essential aftersales care. There is very little sign that this will not continue long into the future, primarily due to the capital investment required to have the necessary physical presence and the complexity of organising businesses across every geography across the globe. The Manufacturers have enough challenges for investment (exacerbated by the current crisis) and so the development of revolutionary new distribution models is considered unlikely. Indeed, the level of assistance by Manufacturers to their retail networks during the pandemic has been significant and gives evidence of their desire to support and maintain their existing distribution model.

This does not mean that there will be no changes in the composition and structure of the UK's franchise dealer network. We expect a continued tendency for the number of UK franchised dealer outlets to decline and this may indeed progress more quickly now. Manufacturers will seek simplification in their networks, choosing to work with fewer, larger retail partners of scale which best deliver on their objectives. The positive relationships the Group has established with Manufacturer partners means it is well placed to take advantage of this ongoing consolidation. In terms of representation, a more fluid representation plan is anticipated to emerge, more suited to local market conditions (rather than a one size fits all approach across varying geographies) which could involve the development of market areas, large dealership hubs, used car only operations, local aftersales only facilities, potentially combined with localised delivery points. These trends are likely to enhance sales per sales outlets for the remaining network representation points.

Execution of Strategy (continued)

Growth (continued)

Importance of Scale and Brand (continued)

To deliver long-term value to the Group's owners, the Group's strategy is to continue to grow 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 online and off-line co-ordinated marketing strategy, based on strong brands, to maximise the benefits of the Group's unique national footprint, online platforms, scaled highly efficient 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. The Group currently operates a small number of brands in the UK and measures their effectiveness through regular third-party assessments of consumer awareness. Bristol Street Motors is one of the top automotive retail brands in England for volume franchises and has been promoted by significant TV advertising in recent years. Bristolstreet.co.uk is one of the most significant websites in the sector and the brand is over 100 years old. In Scotland, Macklin Motors is the Group's sole brand North of the Border and is ten years old this year. It has also benefitted from recent acquisition growth and a long period of TV exposure.

The Group is increasingly developing customer awareness of its core premium franchise brand, Vertu, and will commence its first TV marketing campaign in relevant regions in the coming months. Vertu is a fresh brand developed since 2006 and the Board believe it is set to become a major player in the UK in the years ahead. A new website, Vertumotors.com, has now launched to leverage the brand on a single platform across franchises such as Honda, Volkswagen, Toyota and Mercedes-Benz.

The final, major Group brand is Farnell, which operates Jaguar Land Rover franchises in the North of England and has been associated with the brands since 1948. Farnell has an excellent reputation and has the ability to be further developed.

Portfolio Development and changes

As part of the strategy for scale, the Group seeks to add additional Manufacturer partners, not currently represented in the portfolio, to facilitate additional growth opportunities and succeeded in this in the financial year. In addition, it is likely that more dealership locations will see increased levels of multi-franchising, where two or more franchises are represented at one location, to provide sales and service functions in a territory, but with a lower operating cost base. The Group has executed multi-franchising actions in several its locations in the year ended 29 February 2020 and continues to evaluate such opportunities to maximise the profitability of each location. Increased flexibility of formats and Manufacturer requirements are likely to aid this process and again the current situation is likely to accelerate this trend.

Reflective of the above, on 20 December 2019, the Group exited the Volvo franchise in Derby with the business being transferred to a subsidiary of Marshall Motor Holdings plc. The premises were retained and after refurbishment, the Group opened the site as the Group's sixth Peugeot dealership on 28 February 2020. Additionally, in January 2020, the Group opened two new franchise outlets for Hyundai in the North East of England bringing the total of Hyundai outlets operated to 10. This growth of Bristol Street Motors arose at Silverlink, North Tyneside in the Group's former Infiniti dealership and, in addition, the franchise was added to the existing Ford and Honda operation in Morpeth, Northumberland - an excellent example of multi-franchising.

Execution of Strategy (continued)

Growth (continued)

Portfolio Development and changes (continued)

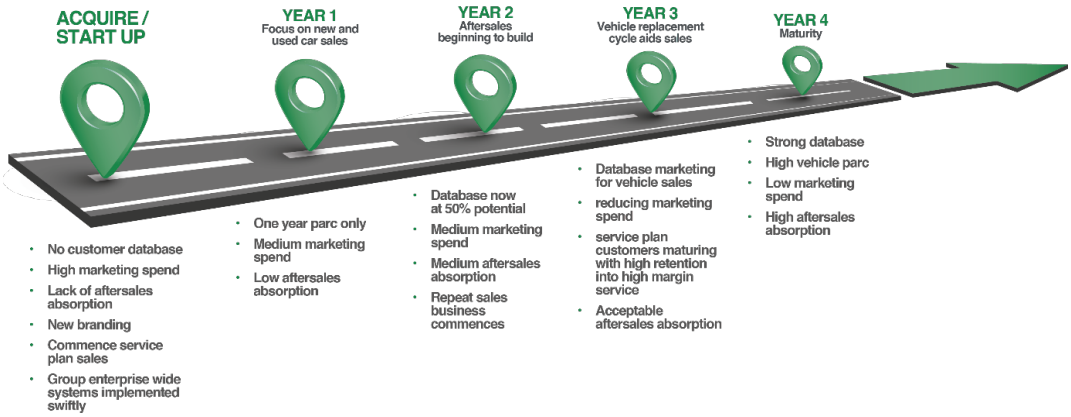
On 15 January 2020 the Group acquired the trade and assets of four Volkswagen passenger car dealerships in West Yorkshire from Goodman Retail Limited, a trading subsidiary of Sytner Group Limited. The purchase of these four substantial Volkswagen leasehold dealerships in Leeds, Huddersfield, Harrogate and Skipton represented further expansion of the Group's Vertu brand and complements the Group's existing 13 outlets in Yorkshire comprising the Nissan, Renault, Jaguar, Land Rover, Vauxhall and Honda brands. Cash consideration payable on completion totalled £6.9m, including a payment in respect of goodwill of £1.8m. The financial statements for these businesses for the year ended 31 December 2018 showed revenues of £112m and a profit before taxation of £0.6m.

On 20 January 2020 the Group acquired the trade and assets of three franchises on a multi-franchise dealership in Edinburgh, Scotland from the administrators of Leven Cars Group Limited. The purchase of this Kia, Suzuki and Mitsubishi leasehold dealership represented further expansion of the Group's Macklin Motors brand and complements the Group's existing nine outlets in Scotland comprising the Nissan, Ford, Mazda, Peugeot and Hyundai brands. The acquisition also brought Kia, Suzuki and Mitsubishi as new franchises to the Group. The consideration paid on completion was £0.03m.

Finally, on 28 February 2020, the Group acquired the trade and assets, including a freehold property, of Bradford Kia and Honda, from Vantage Motor Group. Consideration payable on completion was £3.9m, including £3.1m in respect of the freehold property. The addition of the Honda franchise in Bradford adds to the Group's geographic coverage of 12 other Honda car dealerships across the East Midlands, South Yorkshire and North East of England. Bradford Kia became the second Kia dealership operated by the Group.

The Group's business model has remained consistent for the thirteen 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 overall 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.

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



Execution of Strategy (continued)

Growth (continued)

Portfolio Development and changes (continued)

The Board adopts a rigorous and disciplined capital allocation process in deciding whether to pursue an acquisition. Investment evaluations for specific opportunities involve detailed three-year investment appraisals and utilise set return on investment hurdle rates to ensure appropriate capital allocation.

Six-monthly, the Board assesses the Group's strategic position with each Manufacturer to confirm the Group's standpoint on future investment in the franchise. This leads to an Add, Hold, Reduce or Avoid conclusion which underpins the Group's strategic franchise portfolio management.

The anticipated acceleration of network changes for franchised retailers outlined above, means that property flexibility, such as freehold ownership and sensible lease lengths and structures, takes on greater importance. Modelling has been undertaken to assess how network changes may impact the Group's dealerships going forward and the impact this may have from a property perspective around the freehold property portfolio and lease commitments. Acquisitions and disposals must also reflect these trends and the Board is mindful of them when considering the current portfolio and how it will evolve. In addition, the Board performs regular reviews of underperforming dealerships within the portfolio, applying its strategy of "fix, re-franchise, sell or close". These disciplines are a very important element of the capital allocation process providing cash for investment in higher return activities. In the wake of the current situation, such reviews take on even greater importance and a further review is planned once the "new normal" position of the economy and sector becomes apparent later in the coming months.

Impact of Industry development trends

Potential future development of the automotive sector has in recent years been linked to the development of the Connected, Autonomous, Shared and Electric (CASE) vehicle. The current global pandemic will almost certainly impact on the 'Shared' element of mobility, with the potential that consumers shy away from public and shared transport, at least in the short-term. It is also increasingly apparent that whilst increased autonomy is certainly assisting drivers, full autonomous capability is still a long way off, with technological, regulatory and legal considerations weighing heavily.

The wake of the pandemic may put pressure on Regulators around the stringent Co2 legislation that has been put in place in the EU. This is the key driving force of the 'Electric' element of CASE. The public have undoubtedly noticed less air pollution in urban areas during the lockdown and this will no doubt lead to continued efforts to reduce NOx emissions due to the health benefits. Current new models of petrol and diesel vehicles have a major part to pay in this effort, alongside alternative fuelled vehicles. With regards to carbon dioxide reduction targets in the EU, the situation may be more complex since tightening emissions regulations have undeniably put Manufacturer business models, cash levels and future returns under significant pressure. The post pandemic return of a strong, automotive manufacturing and retail sector will be vital to rebuild European economies in the months and years ahead.

Over 40% of the Group's gross profit has historically arisen from its aftersales operations, namely the provision of servicing and repairs and the retailing and wholesaling of parts. Electric vehicles require less mechanical service intervention than those with an internal combustion engine, however, latest research suggests that their complexity has the potential to increase or at least maintain service and repair revenues from such vehicles for the next decade at least.

The increasing technological complexity of newer internal combustion, hybrid and electric vehicles has meant the barriers for new entrants into the vehicle servicing arena have, if anything, increased as the costs of specialist diagnostic equipment, tooling, access to software downloads and training rise. Customers are more likely to trust Manufacturer franchise-holders to service a highly complex, potentially electric, connected vehicle with increasing levels of autonomous driving functionality.

Execution of Strategy (continued)

Impact of Industry development trends (continued)

The UK saw a significant increase in registration of pure electric vehicles in 2019, however, the 1.6% market share achieved is still tiny. This leaves a very high proportion of registrations of vehicles with an internal combustion engine component and it is expected that these vehicles will dominate the vehicle parc well into the 2030s and even beyond. This provides a major growth opportunity in high margin aftersales for the Group, especially given that developments in the 'Connected' vehicle area are likely to increase service retention of vehicles into franchised networks.

Notwithstanding the above, electric vehicles will undoubtedly form a rising proportion of new and used sales in the years ahead. The Group has trained all colleagues on electric vehicles via e-learning and the Group has 10 of its dealerships audited and approved as "Electric Vehicle Approved" outlets as part of a Government and sector promoted scheme to promote enhanced standards to consumers in this area. 10 is the maximum number of dealerships a Group can currently have approved.

Omni-channel retailing

Digitalisation of Sales

Whilst the pace of consumer change from physical to online has been fast in the general retail sector, the relative complexity of a vehicle purchase has, thus far, led to a much lower adoption of 'purely' online transactions within automotive retail. However, the industry may now see an acceleration in the transition to an enhanced role for online capability for automotive purchases and the Group has been at the forefront of developments to provide customers with innovative ways to purchase and interact in vehicle sales.

Vertu was the first dealer group in the UK to develop the technology for customers to choose a used vehicle, finance its purchase and trade in their existing vehicle entirely online. This was launched in May 2017 and has seen many customers starting their purchasing journey on the platform and in some cases completing the entire process online. The relatively low volumes of entirely online sales to date relate directly to the relative complexity of a vehicle purchase transaction, which potentially includes financing, warranty and other products, as well as a vehicle to trade in. Until now, customers have also preferred to test drive their chosen new vehicle, to ensure that it will meet their needs, before committing to a purchase. This requirement is highly likely to continue when some degree of normality returns to life.

During the lockdown period, the Group continued with its in-house software developments undertaken by its 25 strong development team. Great progress in developing omni-channel retailing functionality was made throughout 2019 and into 2020 and the benefits are increasingly coming to fruition. As customers faced lockdown and potentially demand a contactless sales environment, these developments take on increasing importance. Recent developments include:

- Online retailing functionality has been launched across all Group websites for new and used cars. In May 2020 this functionality was enhanced with a simplified customer journey, resulting in a record level of purely online transactions completed.
- Consumers can now reserve a car for a fee online so effectively taking the car off-market while the deal is finalised with the dealership. Uptake of this functionality has been excellent
- Online finance calculators now provide the same experience online as in the showroom.
- Contactless document "signing" is now in place with approval obtained from the customer, whether at home or in the showroom, via SMS message.
- Video technology is now embedded into the Group's bespoke showroom system to allow sales executives to hold video calls with one or more customers and to demonstrate vehicles and present deals in the same way that would be done were the customer in the showroom.

Execution of Strategy (continued)

Omni-channel retailing (continued)

Digitalisation of Sales (continued)

It will now be more vital than ever before to have an omni-channel approach offering choice to customers between online and offline channels. The customer experience of the transition from online to offline (and return) must be seamless. The Group has moved a long way down this road in recent months which will lead to competitive benefits in the future.

A "Bricks and clicks" strategy

The Group's network of physical dealerships across the UK remains at the centre of its customer offering and is vital for the delivery of service and repair work to our customers. A "bricks and clicks" model is likely to prevail in this sector. The vast majority of customers buy from their local dealership and the majority will still want to undertake a test drive. Local sales and aftersales support is a key factor in many vehicle buying decisions and the Group retains a high proportion of its vehicle sales customers into service. The continued improvement of such customer retention is a key goal for the Group. Initiatives such as the sale of service plans aid service retention, but the delivery of excellent customer experience is the most important predictor of customer loyalty. Opening aftersales in most locations during the lockdown period reinforced customer loyalty and future retention.

Cost Reduction

Enhanced scale of operations allows the Group to maximise on purchasing benefits, provide process efficiencies with common systems and technology and to gain marketing synergies from promoting a larger network for each of the Group's brands.

The Group's inhouse management information system has been developed to provide management (and colleagues) with real time data in all aspects of the business, from financial information, cost trends, colleague performance, customer experience data to complaints analysis. We believe this gives the Group a scalable, competitive advantage in business performance and indeed regulatory compliance. Such tools provide benchmarking to promote greater consistency in performance across the business.

Enhanced integration of the Group's sales showroom and financial systems has removed the need for paper documents within the sales process and facilitates significant efficiency improvements in processing vehicle sale transactions. This will deliver future reduced costs.

Further examples of innovations to deliver enhanced efficiency, so delivering costs benefits are:

- The Group's online service booking bot 'Leo' has been further developed and integrated into the Group's service diary to remove any re-keying of information by the Group's central contact centre. The Group is now booking in over 5,000 customers per month online for their service, delivering a significant cost reduction.
- Internet sales enquiries from Manufacturers and third parties are now auto-populating the Group's showroom system so reducing double-keying and leakage.
- A new telephony system is now uniform across the Group and not only reduces costs but also allows for efficiency improvements in call handling. This significantly enhanced the ability of contact centre operatives to work easily and effectively from home during the lockdown.

Further projects are being undertaken to utilise robotic processes and machine learning in various areas, including lead prioritisation. Attrition marketing is also being progressively developed to ensure marketing spend ROI is optimised.

Execution of Strategy (continued)

Motivated, Professional Colleagues

To execute its strategies, the Group must have the right people in management and colleague positions and have a culture that promotes excellence and is intolerant of mediocrity. In this way, the basics of the business are executed, and customers delighted.

The Group has over 5,800 colleagues and its success is predicated not only on having the right strategy but in the day-to-day delivery of operational excellence to meet customers' needs at over 130 UK outlets. The calibre, skills and motivation of management and colleagues is therefore vital to delivering the objectives of the Group. This comes down to consistently delivering the basics within the business with the application of the right Values.

The Group has a very stable team of senior executives and dealership General Managers. Training is seen as vital within the Group with extensive leadership development paths in place from sales executives and technicians all the way to executive level. These paths are combined with a formal talent strategy in each division to identify, develop and promote high potential colleagues and to provide opportunities so that their skills are retained in the Group. To aid this, the HR Director and CEO undertake formal talent pool reviews with each Division on a six-monthly basis. E-learning and skills-based training is also provided for all colleagues to ensure consistency of culture and processes. The Group regularly invests in bringing to the UK, world class management trainers to train all the Group's 600 managers to raise management standards and create a Group-wide performance culture. Indeed this was again undertaken when a renowned US trainer trained every manager for a day in January.

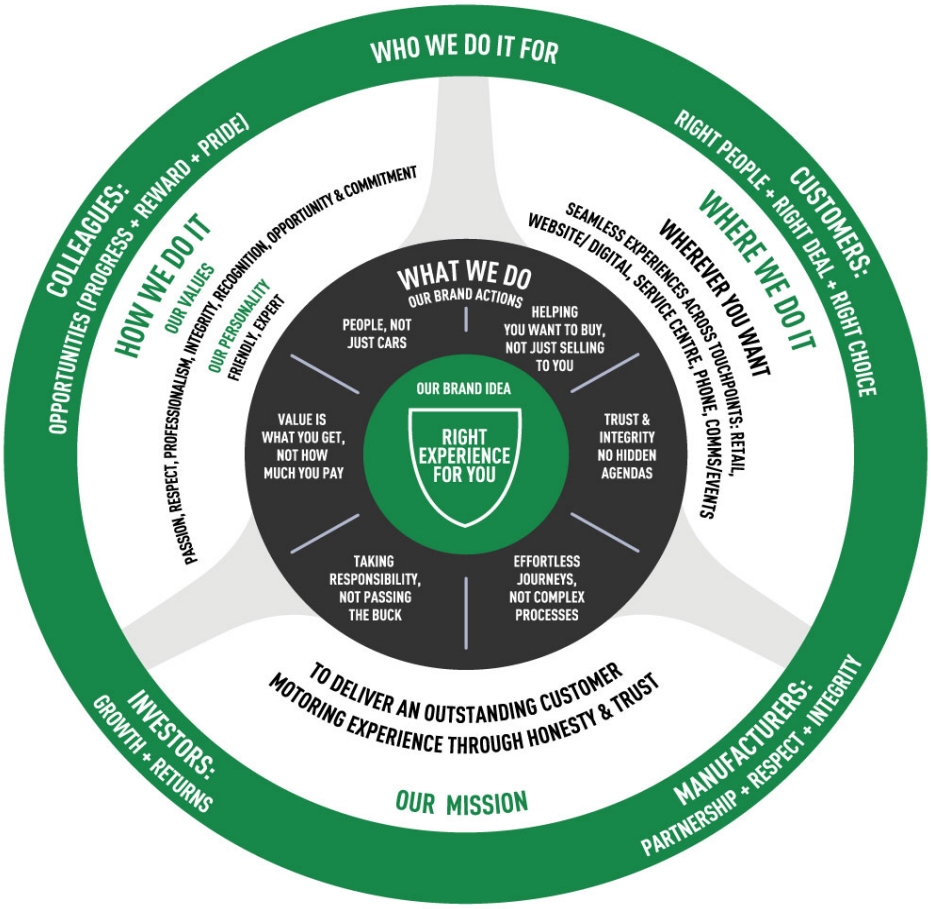
A key aspect of the Group, which drives performance and consistency, is to have one, consistent Group culture. Delivery of the Group's Mission Statement ("To deliver an outstanding customer motoring experience through honesty and trust") through application of the Group's Values ("Professionalism, Recognition, Integrity, Respect, Opportunity and Commitment") is at the core of how we do business. The latest annual colleague survey, completed by over 80% of the Group's colleagues in August 2019, confirmed that 97% knew the Values of the Group and 90% considered that the Directors actively practice them. An evidence to the Group's commitment to the delivery of outstanding customer service, the Group was delighted to win, in July, the AutoTrader Customer Experience Award and, in November, the Lex Autolease Aftersales Excellence award. This external validation reinforces that the customer focused culture of the Group is increasingly consistent. As at 29 February 2020, 81.6% of Group dealership sales departments and 57.3% of aftersales departments achieved above national average scores in customer satisfaction, as measured by our Manufacturer partners. In addition, the Group's Judge Service Net Promotor Score measured in respect of used vehicle sales was 82.9% based on a three month rolling measure.

The Group adopts a "Right People, Right Choice, Right Deal" brand model, centred on a "Right Experience for You". The "Right Experience" applies equally to colleagues, customers, Manufacturer partners and indeed investors.

Execution of Strategy (continued)

Motivated, Professional Colleagues (continued)

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.



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.

Responding to Regulatory Change

FCA

Following the publication of the FCA's findings in connection with a review of motor finance, commission arrangements looked set to change in the second half of 2020. The FCA commenced a consultation process around these changes, but it is not known at this stage what changes will arise from the FCA's findings. In response to the COVID-19 pandemic, the FCA have announced a further delay to the publication of its recommendations arising from this review until later in the Summer.

The Group has always considered regulatory compliance to be a core operational competence. The Group has for many years used one electronic showroom system across the Group to ensure consistency of process in this important area of regulatory compliance, as well as to provide customers with the right information to select the financial products which best suit their needs. The Group has a long-established Compliance Committee which regularly reviews the Group's sales process, key performance metrics and real time customer feedback to ensure that the Group continues to demonstrate appropriate compliance with all the relevant legislation. The Group benefits from the uniformity of its core systems platforms and its sales and administration processes. The Group has an excellent, internally developed in-house management information system providing a holistic view to management of activity including customer outcomes. Acquisitions are brought onto these platforms very quickly.

Execution of Strategy (continued)

Responding to Regulatory Change (continued)

UK withdrawal from the EU

At this stage, the UK's future trading arrangements with the European Union remain unclear. In the event the UK exits the Customs Union and Single Market without a deal on trade, it is a possibility that World Trade Organisation rules will apply. Tariffs of 10% may be charged on vehicles which are imported into the UK, increasing the cost of such vehicles to consumers. If this occurs it is likely to cause a fall in sales of new imported vehicles, whilst contributing to an underlying strength in used vehicle values.

In the absence of an agreement on the future arrangements as part of a customs union, a change to the timing of new vehicle consignment stock invoicing to retailers is also possible. The Group currently receives invoices, on which it can reclaim input VAT, from several of its Manufacturer partners when a vehicle leaves the assembly line following production, regardless of where this may be located within the EU. The VAT is then reclaimed by the Group whilst the invoice is included in trade creditors until the vehicle is sold or a prolonged period expires utilising Manufacturer funding lines. On leaving the EU and its VAT regime, invoicing to the Group may be delayed until the vehicle arrives in the UK. A delay in the timing of vehicle invoices to the date a vehicle arrives in the UK will reduce the current VAT cash flow advantage currently afforded to the Group as a result of such invoicing arrangements.

Strategic Summary

There are a number of potential threats to the Group's business model set out above, however, there are also significant opportunities. The Group's future success is dependent upon its ability to continue to innovate in order to meet any changes in customers' needs and in response to regulatory change. The Group also needs to continue to ensure capital is allocated to those activities, locations and franchises that are best placed to meet the competitive challenges arising. The Group's success will ultimately rely on leveraging its proven strengths, the quality of execution of business ideas, such as cost saving initiatives, enhancing operational efficiency, marketing campaign delivery and new business opportunities. The Group's stable, experienced management team and the relative financial strength, compared to many others in the wider sector, means it is well positioned to take advantage of the opportunities arising and is ambitious to do so.

We are proud of our Mission Statement "to deliver an outstanding customer motoring experience through honesty and trust" and all our colleagues strive to achieve customer service excellence. The Group's business success is based on the delivery of this premise.

COVID-19 Impact

It is clearly important to inform shareholders of the risks that the COVID-19 pandemic poses to the Group and the actions taken to ensure the safety of colleagues and customers and to protect the business for the future.

The UK has no experience in the last 100 years of a crisis like the one we are currently facing. It is not yet clear how long the virus will last and what consequent effects on consumer behaviour and the sector may arise.

Vehicle Sales - retail

An immediate and dramatic reduction in retail vehicle demand has been witnessed, particularly as individuals were locked down and encouraged to "stay at home". Vehicle showrooms in the UK were not deemed as essential businesses and consequently all of our dealership showrooms closed on 24 March 2020.

It is pleasing to report that despite closing all sales showrooms and contact centres physically, the Group has continued to market and sell a limited number of vehicles. This has been achieved by ensuring seamless operation, at colleagues' homes, of the Group's inbound telephone contact centres (taking on average 2,500 calls a day during the lockdown), and the full operation of digital marketing activity and our internet sales team, also home-working, responding quickly to all sales leads and calls. The Group has operated full online sales functionality on all Group websites and this has been supported by significant TV advertising

COVID-19 Impact (continued)

Vehicle Sales – retail (continued)

Dealership General Managers continued to work at the vast majority of the Group's dealerships during the lockdown and they have personally handled the sales enquiries with customers. Vehicle deliveries have been made to local key workers where the vehicle requirement is urgent and through home deliveries. Where this is the not the case, an order bank has been built up.

Sales enquiries and orders taken during the lockdown have continually increased via the web and telephone, particularly following the recent modest relaxation of the regulations in England. Since the lockdown on 24 March 2020 and up to 23 May 2020, the Group has taken 240 new retail and 1,640 used car retail orders. Used vehicle demand dominated at the start of the lockdown but more balanced new and used demand patterns emerged over the period. The Group has witnessed an increased mix of sales towards cheaper used cars in the period. From 18 May, the Group has been able to undertake deliveries of vehicles to customers from outside of its premises located in England. This enhances the sales proposition and was a major move forward prior to full opening.

On 1 June English showrooms re-opened for sales. Scottish showrooms remain closed but are able to make home deliveries.

Vehicle Sales - fleet

During the lockdown, the Group has maintained fleet sales capacity in all its operating divisions to ensure that its large customer base continued to be served. This is critical since, especially in the area of commercial vehicles, demand in certain essential sectors has been robust. The Group undertook deliveries to end users utilising third party logistic partners.

Similarly, the Group's online commercial vehicle sales operation, Vans Direct, has operated normally but with a reduced sales team. Between 24 March and 23 May the business took 230 orders recommencing deliveries from May.

Overall, the Group fleet car and commercial vehicle operations have taken 1,966 orders from 24 March to 23 May 2020.

Aftersales

Our vehicle repair and parts supply businesses remained open during the lockdown in the vast majority of locations, but at reduced capacity, in order to provide services initially to keep key workers and essential vehicles on the road. The IFS estimated that 22% of the UK workforce were key workers equating to 7 million people. Demand for regular servicing from non-key workers was initially delayed and postponed due to restriction of movement for customers, especially as the validity of MOTs was extended for six months from 1 April 2020. The Group opened a higher proportion of its service operations than the vast majority of its competitors and has therefore seen an increase in customers visiting who are new to the Group. Customer feedback has been overwhelmingly positive that operations have been open for them at an already stressful time.

Throughout the lockdown and particularly from mid- May the Group has increasingly added additional capacity to the service operations in terms of contact centre capability, technician numbers and trade parts resource. Bookings were extended from mid-May to include non-key workers servicing and repair and forward booking levels for June are strong. The small number of dealerships that were initially closed to all operations were reopened in England from the 18 May for aftersales. Overall, the opening of service operations during the lockdown generated cash and reduced losses compared to full closure.

The Group also operates an online parts retailer Aceparts, which sells parts and accessories via the Ebay and Amazon marketplaces. This business has been particularly suited to the lockdown environment and consequently sales revenues in April and May increased by 16.7% year on year from £0.6m to £0.7m per month, with enhanced profitability exhibited.

COVID-19 Impact (continued)

Expenses

The Group sought to minimise its underlying cost base during the period of closure of its showrooms. As locations were closed, a detailed closure checklist was completed in order to ensure both the security of the locations and the minimisation of ongoing costs such as energy, with many supplies to the Group suspended during the closures. Close monitoring of all areas of spend, to highlight where further cost reduction could be made, has been critical and the Group has been aided in this by having a centralised approach to purchasing and strong monitoring systems in areas such as energy. By way of example, a 60% energy saving was delivered in the first month of lockdown compared to the previous month.

The Group's greatest operating expense is its payroll cost. From late March, the Group furloughed 82% of the 5,877 colleagues. The Group has claimed for the grants available for furloughed colleagues under the Government's Job Retention Scheme. These grants totalled £1.8m in March, £8.1m in April and £7.8m in May.

The colleagues of the Group are a significant asset and their knowledge, skill and Values give a competitive advantage. During the April and May lockdown period, the Group paid those not on furlough leave at 100% of the previous six months average earnings and those on furlough leave at 80% of previous average earnings. In addition, no Group colleague received less than national minimum wage. Colleagues who joined the Group after 28 February 2020, and hence did not qualify for Government support, were also paid by the Group in line with other colleagues. Pay levels in the period were subject to caps for high earners and yet were substantially above Government support levels. The feedback from the colleague base has been overwhelmingly positive in respect of the Group's stance to date.

From June, remuneration support levels will be reduced as more colleagues return to work from furlough leave and we seek to re-establish the link between remuneration and business and individual performance.

In addition, in light of the effect of the pandemic, the Group's Senior Management, who remained at work, volunteered to take a 20% reduction in salary and members of the plc board elected to take a 30% reduction in salary for the period from 1 April to the end of May. In addition, with the agreement of the Remuneration Committee, the Executive Directors agreed to waive their contractual annual bonus entitlement for the financial year ending 28 February 2021, notwithstanding that some elements may have entitled them to payment. As a result of these actions the payroll cost to the Group for April and May combined is £13.4m, net of Government Job Retention Grant support of £15.9m.

It is considered vital to maintain contact with all colleagues in this uncertain period and all colleagues have received regular written and video updates to their own email accounts so they are up to date with Group developments and feel included.

Property costs, including rent, rates, depreciation and cleaning are the next largest cost, after payroll, in terms of their proportion of total Group operating expenses. The Group welcomed the business rates relief from the Government, which has meant that the Group will pay no business rates for 12 months from 1 April 2020 for much of its property estate. The annualised saving is anticipated to be £10.6m, representing 90% of the Group's total business rates costs.

During this crisis period, Manufacturers and other major Group suppliers have provided significant support to the Group in terms of cost reductions and cashflow assistance, cognisant that their customer base was in a unique position. The Board is very grateful for these measures and continues to work closely with partners to ensure that the business is in the best position possible.

Cash flow and liquidity

The Group has a strong balance sheet, used vehicle inventory which is largely unencumbered by used car stocking loans, and supportive banks.

The impact of the pandemic on the Group's cash flows and liquidity position is considered in detail in the financial overview section.

COVID-19 Impact (continued)

Post lockdown sales outlook

Our primary focus remains the continued health and safety of our valued colleagues and customers. Meticulous planning has been undertaken for the re-opening of dealerships in a safe and socially distanced way, with strict guidelines and the use of personal protection equipment (PPE) where appropriate, once restrictions are lifted. The Group commenced training of all colleagues in these matters prior to re-opening and has ensured that customers are well informed as to the protocols, including the implementation of timed appointments in sales and service and social distancing requirements. Dealership sales showrooms opened in England on June 1 with Scottish sales outlets expected in due course. A phased return of colleagues from furlough is being adopted to balance resource levels and opportunity.

The longer-term consequences of the virus on retail and fleet demand are not known, however, the use of public transport and shared mobility may become less attractive, due to the risks of close contact with others, increasing demand for vehicles for personal mobility using private cars. In contrast, increased flexibility of the workforce in future may reduce the demand for transport as more are able and choose to work from home. The evolution of the UK vehicle parc going forward will be impacted by these factors.

Supply side impacts on new vehicles are also currently difficult to predict. Many Manufacturers temporarily closed production lines during the pandemic. Supply chains have been disrupted and are likely to take time to recover to previous levels. With Manufacturers already stretched in terms of their investment in alternative power trains, the impact of this disruption upon their liquidity, investment levels and ability to stimulate markets may also be significant. Car makers in Europe have commenced the restart of production with the introduction of improved cleaning and protective practices. Experience in China to date points to manufacturing resuming relatively quickly, with most factories now reopened but with reduced output. The scale of the production ramp up in Europe will determine the scale of new car sales in the coming months and the level of supply in the market will also have an impact on used car pricing dynamics.

A reduction in the UK new vehicle market in 2020 is certain, given the significant falls in March through to May. Current SMMT forecasts are for the new car market to fall 27% from 2.31m to 1.69m in 2020 and light commercial vehicles are also expected to see a similar volume reduction of 28% from 0.366m to 0.263m units. This is likely to have a significant impact on the level of sales volumes achievable by the Group during the FY21 financial year.

Looking to the experience in China, new retail vehicle demand has seen a return to a little over half previous levels in their early days of recovery post virus. This continues to improve and there is also optimism in China that the new car market there will return to close to last year levels by the summer. Certainly the rise of PCP financing in the UK sector in new cars in recent years also creates a useful impetus to the new car change cycle, which is more pronounced than previously and could help to underpin new car demand in the months ahead.

One material consideration on future trading would be whether the UK Government seeks to kickstart new car demand through an incentive scheme in partnership with the Manufacturers. The introduction of an incentive programme may favourably change sector outlook in the short term.

It is likely for a number of reasons that the UK market for used vehicles will recover quickly in the short term as movement restrictions are lifted. Pent-up demand, aversion to public transport and the increased staycations in the UK may all come into play here. By way of illustration, a recent Autotrader survey indicated that 56% of UK holders of driving licenses, who did not own a car, were actively considering a purchase. Online activity during the lockdown has been robust as activity from other normal enquiry routes was shifted online and used car pricing has been remarkably stable to date. The robustness of the used car market in terms of volumes and pricing is also likely to be aided by a potential curtailment of new vehicle production referred to above. It is difficult to forecast where used car pricing will go in months following the re-opening of showrooms.

COVID-19 Impact (continued)

Post lockdown sales outlook (continued)

Clearly, the medium-term robustness of both the new and used car markets will be impacted by economic growth trends and changes in employment rates. Higher unemployment levels tend to reduce demand for cars in the UK, as less people need a car to get to work. A recessionary environment could also drive consumers to be more cautious, reduce spending and increase saving ratios. Finance providers may also become more risk averse so the market may see more finance declines impacting sales. The used car market tends to be more resilient than the new car market in such environments as people trade down to the former from the latter.

Current trading and outlook summary

Vertu has well located dealerships, works with the right Manufacturers, with which it has good relationships, has sector leading omni-channel capabilities, supportive banks, and very motivated colleagues.

We are monitoring data daily and meticulous planning has been undertaken for the re-opening of dealerships in a safe and socially distanced way, with customer and colleague safety paramount and with a phasing of the return to work of colleagues from furlough leave to match demand from customers.

The month of March initially tracked well with good vehicle sales demand for the first two weeks of the month before dipping in the week running up to lockdown. Manufacturers' supported the Group with enhanced or guaranteed bonuses and paid out on reduced volumes. Adjusted profit before tax delivered in the month was £5.9m, well below normal levels.

With lockdown severely impacting operations, April and May saw combined losses incurred of £20m, which were significantly improved on the Group's initial forecasts at the start of the COVID-19 crisis.

Cashflow performance has been the focus of the Group during lockdown and the Board are delighted with the progress made in collecting receivables, delivering stock and controlling costs. Cash levels have been significantly higher than the Group's initial forecasts with cash balances at 22 May of £44.7m, up from £30.0m disclosed on 7 May.

Given the heightened uncertainty of any forecast at this current time, it is inappropriate to provide any guidance with respect to market expectations.

The Board sees the Group as well-positioned to take advantage of the opportunities which will arise. As a well-managed Group with strong culture, brands and systems, the Group has the ambition to grow in scale as the sector consolidates as a result of the acceleration of numerous trends. With its strong liquidity, disciplined approach to capital allocation and its partnership with Manufacturers, the Group looks forward with confidence.

Financial Overview

	2020 £'000	2019 £'000	Year on year £'000	Year on year %
Underlying operating profit	29,795	27,391	2,404	8.8%
Continuing operations	(733)	-	(733)	100.0%
Acquisitions	**29,062**	**27,391**	**1,671**	6.1%
Net finance costs	(5,561)	(3,681)	(1,880)	51.1%
Underlying profit before tax	**23,501**	**23,710**	**(209)**	**(0.9%)**
Impairment charges	(14,378)	-	(14,378)	
Impact of adoption of IFRS 16	(478)	-	(478)	
Share based payments charge	(733)	(904)	171	
Amortisation	(595)	(543)	(52)	
VAT reclaim on dealer deposit contributions	-	3,069	(3,069)	
Profit before tax	**7,317**	**25,332**	**(18,015)**	

Financial Overview (continued)

The Group delivered an 8.8% growth in underlying operating profit from continuing operations in the year ended 29 February 2020. The dealerships acquired in January and February 2020, together with their associated acquisition costs, contributed an operating loss of £0.7m in the year, which reduced underlying Group operating profit growth to 6.1%. The losses arose due to the timing of acquisitions at a low point in the normal annual cycle of sector profitability.

Higher interest costs on new vehicle consignment inventory were incurred, which meant that the Group's underlying profit before tax declined slightly compared to the prior year. Despite the impact of acquisitions, the Group delivered an adjusted profit before tax of £23.5m which was in line with expectations. Profit before tax, including non-underlying charges of £16.2m, predominantly in respect of impairment of assets, was £7.3m (2019: £25.3m).

The Group's income statement for the year is summarised below:

	FY20 £'000	Mix %	FY19 £'000	Mix %	% Revenue change	Like-for-like Change %
Revenue						
New	862,517	28.1	862,824	28.9	-	(1.5)
Fleet & Commercial	708,528	23.1	644,643	21.6	9.9	5.3
Used	1,235,381	40.3	1,217,596	40.9	1.5	0.2
Aftersales	258,104	8.5	257,137	8.6	0.4	4.6
Total Group Revenue	**3,064,530**	**100.0**	**2,982,200**	**100.0**	**2.8**	**1.2**

	FY20 £'000	Margin[4] %	FY19 £'000	Margin[4] %	Gross profit change £'000	Like-for-like Gross Profit change %
Gross profit						
New	62,666	7.3	63,832	7.4	(1,166)	(3.5)
Fleet & Commercial	25,775	3.6	20,217	3.1	5,558	11.3
Used	102,106	8.3	102,043	8.4	63	(0.4)
Aftersales	143,510	46.9	136,013	43.9	7,497	5.9
Total Gross profit	**334,057**	**10.9**	**322,105**	**10.8**	**11,952**	**2.3**
Operating expenses	(304,995)	10.0	(294,714)	9.9		
Adjusted Operating Profit	**29,062**		**27,391**			
Net finance charges	(5,561)		(3,681)			
Adjusted PBT	**23,501**		**23,710**			
Non-underlying items	(16,184)		1,622			
Profit before tax	**7,317**		**25,332**			
Taxation	(4,330)		(4,796)			
Profit after tax	**2,987**		**20,536**			
Adjusted Earnings per share	**5.12p**		**5.10p**			
Earnings per share	**0.81p**		**5.45p**			
Ordinary dividends per share	**0.60p**		**1.60p**			

[4]Margin in aftersales expressed on internal and external revenue

Financial Overview (continued)

Total revenues in the year grew by 2.8% (£82.3m) and like-for-like revenues also grew by 1.2%. The Group saw growth in used vehicle selling prices and total volumes of used units sold. Revenues and gross profit in the used channel were stable on a like-for-like basis demonstrating a resilient performance given the volatility exhibited in the wider market in the year. Aftersales exhibited growth in retail revenues and also in internal work, where the hourly rate charged to the new and used sales departments increased. The changes in parts distribution in the Ford franchise to a new agency model, also had a positive impact on Group aftersales margins. Group margins grew considerably in aftersales from 43.9% to 46.9% as a result. Used cars and aftersales represent approximately half Group total revenues and approximately 74% of gross profit and reflect the fact that the business success of the Group is far more resilient than being solely linked to the more volatile new car market. Group gross margins increased to 10.9% from 10.8%. The Core Group, which excludes dealerships acquired and sold and the impact of the Ford Parts Distribution reorganisation, saw gross profits rise by £7m (2.3%).

Vehicle sales

The table below shows the volume of vehicles sold by the Group:

	2020 Core	2020 Acquired[5]	2020 Total	2019 Total	2019 Core	Total % Variance	Like-for-Like % Variance	SMMT % Variance
Used retail vehicles	**83,382**	**1,389**	**84,771**	**84,444**	**83,465**	**0.4**	**(0.1)**	
New retail cars	31,995	706	32,701	35,412	35,122	(7.7)	(8.9)	
Motability cars	9,647	75	9,722	9,795	9,736	(0.7)	(0.9)	(4.8)
Direct fleet sales	16,854	1	16,855	15,735	15,727	7.1	7.2	5.7
Agency fleet sales	5,503	201	5,704	3,419	3,419	66.8	61.0	
Total fleet sales	22,357	202	22,559	19,154	19,146	17.8	16.8	
Commercial sales	15,783	2,011	17,794	16,327	16,327	9.0	(3.3)	0.9
Total New vehicles	**79,782**	**2,994**	**82,776**	**80,688**	**80,331**	**2.6**	**(0.7)**	2.1
Total vehicles	**163,164**	**4,383**	**167,547**	**165,132**	**163,796**	**1.5**	**(0.4)**	

[5] Relates to businesses acquired or developed subsequent to 1 March 2019 with businesses migrating into core once they have been in the Group for over 12 months

The volumes of vehicles sold by the Group remained relatively stable in the year with growth in total sales achieved of 1.5% and like-for-like volumes down slightly by 0.4%.

New retail car and Motability sales

UK private new retail vehicle registrations during the year fell by 4.8%. Supply side issues, such as continued Sterling weakness and changing regulations with regards to emissions, continued throughout the financial year. In addition, volatile consumer confidence driven by political and economic uncertainty, together with consumer uncertainty over powertrains, had an impact on demand. The Group saw like-for-like new retail vehicle volumes fall 8.9% reflecting the market decline and Group's franchise mix, with some of the Group's Manufacturer partners seeing significant contractions in market share.

Motability volumes declined 0.9% on a like-for-like basis, compared to a rise in UK registrations through this channel of 5.7%. The Group's Motability volumes are heavily weighted to volume Manufacturers, who reduced supply into this low margin channel as a result of the impact of Sterling on margins and consequently saw lower market share in the UK compared to premium franchises, which have continued to aggressively push volume into this channel.

Financial Overview (continued)

New retail car and Motability sales (continued)

New vehicle average selling prices continue to rise, driven by both Manufacturer price increases and a growth in the premium mix of the Group's sales. Selling prices averaged £18,521 in the year (2019: £17,286) representing a rise of 7.1%. The Group retained £1,451 of gross profit per new unit sold on a like-for-like basis (2019: £1,396) growing this measure by 4.0%. Gross margin percentages on new vehicle retail sales fell from 7.4% in 2019 to 7.3%. Like-for-like gross profit generated from the sale of new retail and Motability vehicles declined by £2.2m over the year as a consequence of the decline in volumes of cars sold together with higher charges from the service department on preparing vehicles.

Fleet and Commercial vehicle sales

The Group outperformed the market in new fleet cars, growing like-for-like volumes, including agency volumes, by 16.8% against a 0.9% growth in the UK fleet market. Agency volumes in the fleet channel relate to vehicles where the Group receives a handling fee for the registration, preparation and delivery of the vehicle, but where no vehicle sales revenue is recorded. The Group saw considerable success in developing its fleet capacity in both the premium and volume markets, with 22,559 cars delivered in the year. The Group was particularly successful in increasing its share of Mercedes-Benz fleet business and also supply to leasing companies in certain volume franchises.

The UK commercial vehicle market experienced disruption driven by the introduction of new WLTP regulations which came into force for vans on 1 September 2019. Total Group sales volumes of commercial vehicles increased 9.0% in the year, boosted by the additional volume of the Vans Direct business acquired in January 2019. The Group delivered nearly 18,000 commercial vehicles in the year. Commercial vehicle sales remain a core competency of the Group and where the Group has excellent levels of expertise. The Group's like-for-like sales volumes of new commercial vans declined by 3.3% in the year. This was below the market trends, with this loss of market share reflective of the weighting of the Group's commercial vehicle operations to brands which saw greater declines in van registrations compared to the market overall.

The Group successfully grew like-for-like gross profit per unit in the Fleet and Commercial channel to record levels, increasing by 4.7% to £593 (2019: £566). Consequently, like-for-like gross profit generation from the fleet and commercial channel rose £2.2m in the year. Like-for-like fleet and commercial gross margin grew from 3.1% to 3.3%, aided by an increase in agency volume.

Used Vehicles

During the year ended 31 December 2019, the total used car market in the UK recorded 7.9 million transactions, just 0.1% below 2018 levels[6]. The used vehicle market in the UK experienced higher than normal seasonal price drops from April to June 2019, driven by strong supply of vehicles (from March trading) entering the wholesale markets in a period of increasingly weak consumer demand. In the second half of the financial year, UK used vehicle supply tightened as the new car market continued to decline, restricting fresh supplies of part exchanges into the wholesale markets. Used wholesale prices increased because of these supply constraints and remained stable for the remainder of the financial year, so underpinning used car margins as the year progressed.

During the year, the Group sold nearly 85,000 used vehicles, increasing total used vehicle revenues by 1.5% (like-for-like 0.2%). This rise was driven by an increase in like-for-like average used car selling prices in the year of 0.3% from £14,142 to £14,188 as well as a 0.4% increase in total used volume (like-for-like, a small decline of 0.1%).

Like-for-like gross profit generated from the sale of used vehicles declined by £0.3m in the year (0.4%). The Group increased the internal labour rate charged by its service operations in the preparation of new and used vehicles for sale. This increase effectively transferred £2.9m of gross profit from the Group's used vehicle department into the aftersales channel and helped to drive the higher aftersales margins. Therefore, discounting this value transfer, significant growth of used gross profit was delivered which, considering the market volatility, was very pleasing.

Financial Overview (continued)

Used Vehicles (continued)

Decisions around gross profit per unit are influenced by ensuring prices are competitive in the market and that total gross profit is optimised through a balance of margin and volume. Management flex this balance over time taking into account an assessment of market dynamics. Gross profit per unit of £1,214 was delivered, which was in line with the prior year despite the absorption of the additional charges from the service department and used margin percentages were held at 8.6%. This represents an excellent used car performance. Supply constraints from the summer onwards resulted in a rebalancing of the strategy on used cars towards margin rather than volume growth.

[6] Source: SMMT.

Aftersales

The Group's high margin aftersales operations, which include servicing, parts supply and accident repair form 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 only 8.5% of Group revenues, it accounts for 43.0% of gross profit. On 1 March 2019, the Group increased the hourly rates charged on internal work undertaken for the sales departments and this has augmented margins and Group profitability. Overall, margins have also been aided by the change to an agency parts sales model in the Ford franchise, with this activity excluded from the Core Group in the reported results.

There remains substantial opportunity to grow the volume of these higher margin aftersales activities due to size of the UK vehicle parc in the UK, which currently comprises 37.1m[7] cars and vans. Self-help strategies to increase customer retention, such as through the sale of service plans and the delivery of excellent customer experiences, aid aftersales performance. The increasing technological complexity of vehicles and innovation in engine and vehicle management systems, has contributed to the maintenance of the mix of warranty-related work undertaken in the Group's service departments, reflecting another strength of the franchise retailer business model. It should be noted that around 50% of the Group's retail service revenues (excluding fleet customers) emanate from customers who have a Group or Manufacturer service plan. We believe this is ahead of the sector generally with the Group having over 102,000 customers paying monthly for servicing over a three year period, boosting retention levels.

As part of the Group's now largely completed programme of capital investment, service departments were extended and restructured to increase the number of ramps available. The Group is now benefitting from this additional capacity and this is helping to drive aftersales profitability growth.

Manufacturers continue to pursue strategies to increase the efficiency of their parts distribution networks. Ford changed their parts distribution model nationwide in the financial year. As a consequence of these changes, Group parts revenues declined by £23.1m and related profitability declined by £0.8m as anticipated. Vauxhall is currently in the middle of reorganising their parts distribution model and this is expected to be complete by the end of 2020. Parts revenues are expected to reduce and profitability to decline by £0.9m as previously announced.

[7] Source: Gov.co.uk.

Financial Overview (continued)

Aftersales (continued)

The table below sets out the Group's like-for-like aftersales revenues and margins, including both internal and external revenues.

	2020	2019	Variance
Revenue	**£'m**	**£'m**	**%**
Service	124.7	116.8	6.8
Parts and other	156.3	151.6	3.1
Like-for-like aftersales	**281.0**	**268.4**	**4.7**
Gross Margin			
Service	77.0%	75.4%	1.6
Parts and other	23.0%	24.1%	-1.1
Like-for-like aftersales	**47.0%**	**46.4%**	0.6

The Group continued to focus on driving growth in its vehicle servicing departments, achieving a 6.8% increase in like-for-like service revenues in the year. Approximately 50% of this growth was as a result of the increase in internal charges to the sales departments. Like-for-like margins of vehicle servicing rose to 77.0% (2019: 75.4%) with the increased hourly rates charged to the sales departments augmenting margins by 0.7%. Technician salary levels are stable and the Group drove higher average invoice values on retail work through pricing actions and more effective vehicle health check processes.

Overall, like-for-like gross profits in aftersales rose £7.3m year on year, with the increase in internal rate charges accounting for £3.9m of this improvement. There has been an excellent underlying improvement in service operation profitability achieved through good execution.

Operating Expenses

In an inherently low margin business, it is vital that a disciplined framework of cost control is in place and this is a core competency for operational management. The Group's cost control framework is built around a highly detailed business planning approach, undertaken annually for all dealerships and cost centres. Once the business plans are established, costs are benchmarked on a monthly basis using excellent analytical tools developed by the Group.

The Group is focused 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 the last five years with a remit to identify and execute productivity gains and these have borne fruit. As previously noted, several significant projects are in place to increase operational efficiencies and to reduce costs in the medium-term.

	2020	% Revenue	2019	% Revenue	Year on year	
	£'000	**%**	**£'000**	**%**	**£'000**	**%**
Core Group Operating Expenses						
Employment and salary costs	142,370	4.6%	140,091	4.7%	2,279	1.6%
Marketing costs	31,013	1.0%	28,945	1.0%	2,068	7.1%
Occupancy costs	33,410	1.1%	32,009	1.1%	1,401	4.4%
Other operating expenses	76,069	2.5%	77,944	2.6%	(1,875)	(2.4%)
	282,862	**9.2%**	**278,989**	**9.4%**	**3,873**	**1.4%**
Non-Core Operating Expenses						
FY20 acquisition operating expenses	2,216	0.1%	-	0.0%	2,216	0.0%
FY19 acquisition operating expenses	17,548	0.6%	11,833	0.4%	5,715	48.3%
Closed sites	2,369	0.1%	3,892	0.1%	(1,523)	(39.1%)
Group Underlying Operating Expenses	**304,995**	**10.0%**	**294,714**	**9.9%**	**10,281**	**3.5%**

Financial Overview (continued)

Operating Expenses (continued)

Total underlying operating expenses in the year totalled £305.0m (2019: £294.7m) and as a percentage of Group revenues, operating expenses were stable at 10.0% (2019: 9.9%). Like-for-like operating expenses increased by £3.9m, an increase of 1.4%, which is significantly reduced compared to the 4% growth seen in 2019. This is a pleasing result given the sector's cost pressures in particular around property and employment costs. This demonstrates the focus which the Group has continued to place upon cost control.

The greatest expense of the Group is employment costs, which in the Core Group increased by £2.3m (1.6%) over the financial year. Following investment in additional dealership capacity, in particular, in aftersales, additional front of house colleagues were taken on to facilitate the growth in customer numbers. This investment in the Group's service operations accounts for £1.5m of the total increase in Core Group salary costs. 15% of colleagues in the Group were paid at the national minimum wage rate in 2019 and the UK increase in national minimum wage rates in April 2019 accounted for £0.6m of the Group's employment cost increase. The proportionately bigger increase in national minimum wage in April 2020 means that 17% of Group colleagues are now likely to be paid at this level.

As part of the Group's strategy to build significant automotive retail brands with high levels of awareness and to overcome weakness in consumer confidence, the Group invested in brand marketing campaigns in the second half of the financial year. This utilised TV, online and cinema campaigns and improved the awareness of the Bristol Street Motors and Macklin Motors brands, aiding the sales operations through the generation of increased enquiries and sales. This brand investment saw overall marketing costs increase by £2.1m compared to prior year.

One of the other significant costs of the Group is occupancy costs in the form of property rent, rates and insurance. The year on year increase of £1.4m represents both an increase in business rates and depreciation (following capital investment in recent years).

Savings in other expenses of £1.9m have been achieved. For example, a significant saving in the cost of telephony and call costs for the Group arose following investment in a telephone system and network infrastructure.

Non-underlying Items

The Group delivered an Adjusted profit before tax of £23.5m. The following items have been treated as non-underlying in arriving at Adjusted profit before tax:

	Year ended 29 February 2020	Year ended 28 February 2019
	£'000	£'000
Impact of adoption of IFRS 16	(478)	-
Impairment charges	(14,378)	-
VAT receipt – deposit contributions	-	3,069
Share based payments charge	(733)	(904)
Amortisation	(595)	(543)
Total non-underlying items	**(16,184)**	**1,622**

Impact of adoption of IFRS 16

The Group has adopted the requirements of IFRS 16 "Leases" for the first time in FY20. As a result, a balance sheet asset has been recognised together with a corresponding obligation, relating to the Group's use of properties and other assets leased under multi-year agreements. Comparatives have not been restated as is permitted under the transitional arrangements.

Rental payments made under these leases will be accounted for as repayments of the balance sheet liability, which will include an implied interest element, and the asset recognised will be depreciated over the remaining lease term.

Financial Overview (continued)

Non-underlying Items (continued)

Impact of adoption of IFRS 16 (continued)

The balance sheet position at 1 March 2020 has been adjusted for right-of-use assets of £87.0m, with corresponding lease liabilities of £96.9m. FY20 net profit before tax has decreased by £0.5m as the pre-IFRS 16 rental charge has been replaced by higher depreciation and interest. The depreciation is charged on a straight-line basis; whilst interest is charged on the outstanding lease liabilities and is therefore higher in earlier years and decreases over time.

The impact of transition to IFRS 16 has had no impact on the Group's cash position, but does impact presentation within the cash flow statement. Operating lease rentals are no longer presented within operating cash flow, but as a lease repayment presented within financing cash flows. For the financial year ended 29 February 2020, the effect of the transition to IFRS 16 has been presented as a non-underlying item to aid comparability. Going forward, the impact of IFRS 16 will be included within the Group's underlying result

Impairment Charges

The carrying amounts of the Group's goodwill and other indefinite life assets, property, plant and equipment are required to be tested annually for indications of impairment. For the purposes of impairment testing, assets have been grouped together into the smallest group of assets that generate cash flows from continuing use, independent of cash flows from other groups of assets. 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. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-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 pre-tax rates that reflect current market assessments, the time value of money and the risks specific to the CGUs.
- Growth rates are based on best management estimates by reference to industry forecasts.
- Changes in gross profits and direct costs are based on anticipated scenarios, factoring in an estimate of the impact of COVID-19, together with best estimation of future changes in the market.

In the light of the substantial curtailment of operations in response to the global COVID-19 pandemic, a cautious assessment has been applied on the market outlook and, therefore, the cash flow projections across all of the Group's CGU's. Specific modelling of cash flows for the next two financial years has replaced the previous assumptions. The value in use model reflects the full closure period of dealership sales operations in the year to February 2021, followed by a further period of steady recovery to historic levels of performance for each CGU by year three. The model assumes annual growth rates of between 0% and 3% will then apply to years three to five in the forecasts. A growth rate of 0% has then been assumed to perpetuity. A risk adjusted pre-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 8% (2019: 8%) has been applied.

The impact of COVID-19 on the Group has been treated as an adjusting post balance sheet event. As a consequence, during the year ended 29 February 2020, impairment charges totalling £14.4m have been incurred to align the carrying value with resultant value in use calculations.

Financial Overview (continued)

Interest charges

Underlying net finance costs in the period totalled £5.6m (2019: £3.7m) with the substantial increase arising due to higher new car stocking interest charges.

A £1.5m increase in stocking interest payable on new vehicle consignment stock arose, reflecting an increase in interest rates charged and reduced free stocking periods offered, in addition to increased opening inventory levels. Manufacturers increased supply of new vehicles into the UK in advance of the initial date for the UK leaving the EU at the end of March 2019.

	Year ended 29 February 2020	Year ended 28 February 2019	Change
	£'000	£'000	£'000
Bank interest payable	1,181	964	217
Vehicle stocking interest expense			
- Manufacturer new vehicle consignment funding	3,918	2,399	1,519
- used vehicle stocking loans	630	495	135
Pension fund: net interest income	(168)	(177)	9
Underlying net finance charges	**5,561**	**3,681**	**1,880**
IFRS 16 Adoption impact	3,595	-	3,595
Net finance charges	**9,156**	**3,681**	**5,475**

The full year impact of acquisitions completed in the year ended February 2019 led to an increase in the average utilisation of both the Group's bank borrowings and the utilisation of used vehicle stocking loans.

The Group makes limited use of used vehicle stocking facilities, which it classifies as debt. As at 29 February 2020, drawings on these facilities were £25.5m, representing just 21.1% of used retail vehicle stock value (2019: £23.2m, 21.9%). The utilisation of such facilities by the Group is at substantially lower levels than the industry peer group and this has allowed the Group to use increased levels of this funding as one of the levers to secure additional liquidity following the disruption to trade caused by the COVID-19 pandemic.

Pension Costs

The Bristol Street defined benefit pension scheme is closed to future membership and accrual. At the last triennial valuation of the scheme, at 5 April 2018, the scheme was fully funded and therefore no contributions are required from the Group to meet the cost of accrued benefits under the scheme.

This defined benefit scheme holds assets with a value of £59.2m as at 29 February 2020 and showed an accounting surplus of £8.9m, (2019 surplus of £6.4m). The improved surplus was the result of returns on investments being higher than required to meet scheme obligations, partially offset by an increase in the value of scheme liabilities. The increase in liability was driven by a reduction in discount rate following falls in corporate bond yields over the financial year.

Tax Payments

Taxation represents one of the single biggest costs to the Group. In the year, the Group expensed £4.3m in corporation tax, £18.1m in Employers' National Insurance Contributions, £10.6m in business rates and £0.9m in the apprenticeship levy. These four taxes alone total £33.9m (2019: £34.5m).

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 underlying effective rate of corporation tax for the year was 19.2% (2019: 18.9%). The current year rate is slightly above 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.

Financial Overview (continued)

Capital Structure

The Group has a strong balance sheet with shareholders' funds of £263.4m (2019: £276.6m), representing net assets per share of 71.7p (2019: 73.8p) as at 29 February 2020. The Group has tangible net assets of £168.8m (2019: £168.4m) and the balance sheet is underpinned by a freehold and long leasehold property portfolio, including assets held for resale, of £212.2m (2019: £209.1m). Debt levels in comparison are low. The Group has a robust tangible net assets per share value of 46.0p (2019: 44.9p). This strong asset backing makes the business resilient and able to withstand both the cyclical nature of the sector and shocks such as the impact of COVID-19.

The Group finances its operations by a mixture of shareholders' equity, bank borrowings and trade credit from suppliers and Manufacturer partners. The position at 29 February and 22 May 2020 of the Group's facilities and utilisation is set out below

	Facilities at 29 February 2020 £'m	**Drawn at 29 February 2020 £'m**	**Facilities at 22 May 2020 £'m**	**Drawn at 22 May 2020 £'m**
5-year acquisition facility (from February 2019) (further £15m uncommitted "Accordion")	62.0	(43.6)	62.0	(53.7)
1 year working capital facility (from 30 April 2020)	68.0	-	68.0	-
Total committed facilities	130.0	(43.6)	130.0	(53.7)
Cash		**40.8**		**44.7**
Adjusted net debt (before used vehicle stocking loans)		**(2.8)**		**(9.0)**
Used vehicle stocking loans	35.0	(25.5)	45.0	(30.5)
Overdraft	5.0	-	5.0	-
Total facilities	170.0		180.0	
Net debt (excluding IRFS 16 liabilities)		**(28.3)**		**(39.5)**
Used vehicle inventory value		121.3		134.0
Cover on used vehicle facility		*4.8 times*		*4.4 times*

The Group has a five-year acquisition facility with Barclays Bank plc and Royal Bank of Scotland plc which matures on 27 February 2024. This facility provides the Group with £62.0m of committed borrowing capacity with the potential to add a further £15.0 million, which is currently uncommitted. £44.1 million of this facility was drawn as at 29 February 2020, but in response to the potential impact of COVID-19 on the liquidity of the Group a further £10m of this facility was drawn down in March 2020.

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. Interest was paid at the rate of LIBOR plus 1.3% throughout the financial year to 29 February 2020, however, in the light of covenant waivers obtained in respect of the impact of COVID-19 on the Group, interest will be payable at the higher rate of LIBOR plus 2.1% from 1 June 2020 on these borrowings.

In order to reduce the Group's exposure to interest rate risk, the Group uses interest rate swaps over £10.0m of drawings fixing the underlying LIBOR rate payable at 0.675%, maturing in July 2020 and in respect of £7.0m of drawings, fixing the underlying LIBOR rate payable at 1.424% maturing in February 2023. In April 2019, the Group entered into an additional interest rate swap, beginning on 31 July 2019, and covering the period to 27 February 2023, over £5,000,000 of the Group's borrowing, swapping LIBOR for a fixed rate of 1.214%. The notional principal amount covered by this latter interest rate swap increases to £15,000,000 on 31 July 2020 concurrent with the end of the Group's existing £10,000,000 interest rate swap.

Financial Overview (continued)

Capital Structure (continued)

In addition to conventional bank borrowing, the Group also utilises used car stocking loan finance. These loans with third party banks are subject to interest at 1.5% above LIBOR and are secured on the related vehicles. The utilisation of such facilities at 29 February 2020 represents less than 25% of the value of Group used vehicle inventories. Subsequent to the financial year, the Group extended its used vehicle funding line by £10m to £45m to provide additional liquidity, if required. Adjusted net debt, which excludes the balances drawn on these used car stocking loans, is £2.8m (2019: net cash £22.9m).

The Group operated with positive cash balances for much of the year. Additional facilities are utilised to fund significant peak working capital requirements following registration plate change months and other quarter ends. The Group has £73m of peak overdraft and other money market facilities. On the overdraft, interest is 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 with interest rates applicable to the revolving credit facility, interest payable on amounts drawn under these facilities will increase to 1.75% above LIBOR from 1 June 2020. As at 29 February 2020, the Group had cash balances of £40.8m (2019: £66.5m) and, as a consequence, net debt of £28.4m (2019: £0.3m).

Group Liquidity

During the financial year to 29 February 2020, 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. The Directors have considered detailed financial projections for a period of 12 months from the date of this announcement ('Review Period'). These projections are based on the Group's detailed annual business plan, adjusted to include assumptions around the financial impact of the global COVID-19 pandemic. The key assumptions applied include:

- The period of temporary closure of all the Group's sales operations from 23 March to 31 May in accordance with Government guidelines.
- Muted revenue projections, with an easing towards more normal levels over the Review Period.
- The delivery of operating expense savings and cash savings such as a reduction in capital expenditure.

The financial projections also assume the continued support of the Group's Manufacturer partners through their continued funding of new vehicle consignment inventory. The financial projections assume that normal adoption timings are delayed for a significant proportion of new vehicle inventories until the vehicles are sold. Past experience of the Group supports this assumption. By their very nature forecasts and projections are inherently uncertain, however, the forecasts so prepared show that the Group will operate within its committed facilities, as set out above, throughout the Review Period.

Due to the impact of the lockdown on the Group's EBITDA, the financial projections show that existing bank covenants may be breached in future periods. Subsequent to the financial year end, the Group obtained a waiver of covenants for the quarters ending 31 May and 31 August in respect of the period impacted by COVID-19. The Board is confident that the Group's banks will agree to review the calculation of covenants after this date, as more certainty over the impact of closure periods due to COVID-19 is obtained, so as to avoid the risk that a future event of default will occur. In addition, the Group secured additional peak level working capital facilities for the months of August and September to provide flexibility and liquidity headroom should this be required. Further detail of the cash flow modelling and assumptions applied is given in the basis of preparation section of note 1 to the annual report and financial statements.

Financial Overview (continued)

Group Liquidity (continued)

Due to the inherent level of uncertainty over future financial performance and cash flows, as well as the importance of the key assumptions underpinning the Group's projections, sensitivity analysis has been performed to model the impact of more adverse trends compared to those included in the financial projections. These sensitivities seek to model the impact of severe but plausible downside risks to the achievement of the financial projections. The sensitivities applied were a further decrease in future sales rates and a reduction in the proportion of new vehicle consignment stock assumed to be funded by the Manufacturers. In the absence of mitigating actions available to the Group, when these sensitivities are applied to the forecasts, they indicate additional banking facilities may be required over and above those which are currently secured. Given the strength of the Group's balance sheet and low debt levels, the Board is confident that additional bank funding and covenant amendments would be forthcoming if required. Based on what is known at this time and forecast information available, the Board believes it appropriate to prepare accounts under the going concern basis. The unqualified audit report on the 29 February 2020 financial statements draws attention to the material uncertainty relating to going concern arising from COVID-19.

Capital Allocation

Consideration of capital allocation is central to the Board's decision making. The Board proactively believes that the Group's funding structure should remain conservative and that the application of the Group's debt facilities to fund activities or acquisitions which meet the Group's hurdle rates for investment, will enhance return on equity and increase cash profits in the future.

In the first half of the financial year, the Group continued its Share Buyback Programme, completing the purchase of 7.4m shares in the financial year. Whilst the Board believes that the repurchase of Group shares remains an appropriate use of capital, the Buyback programme will be suspended until greater clarity on the potential impact on the business of COVID-19 is obtained. The Board intends to seek to renew approval to repurchase 10% of the issued share capital at the forthcoming Annual General Meeting to maintain flexibility in this regard.

Dividends

Cash returns to shareholders are an important part of the Company's capital allocation decision making process. During the nine-year period since the Group commenced payment of dividends to its owners in 2011, over £34.8m has been returned to the owners of the Group through dividends. The dividend has been funded from cash generated from operations. In the light of the impact of COVID-19 on the Group, the Board does not propose a final dividend for 2020. The Group recognises the importance of dividend returns to Shareholders and will continue to review the ongoing situation with a view to the re-commencement of dividend payments as soon as practicable.

Capital Expenditure

The cash impact of capital expenditure and disposals during the year and previous years is set out below:

	FY 2018 £'m	FY 2019 £'m	FY 2020 £'m
Purchase of property	4.3	9.0	1.4
New dealership build	4.3	6.7	3.0
Existing dealership capacity increases	8.2	11.9	4.7
Manufacturer-led refurbishment projects	3.0	1.0	0.8
IT and other ongoing capital expenditure	4.9	4.2	5.3
Movement on capital creditor	(0.6)	0.9	0.4
Cash outflow from capital expenditure	**24.1**	**33.7**	**15.6**
Proceeds from sale and leaseback	(14.1)	-	-
Proceeds from sale of property	(0.2)	(4.0)	(3.0)
Net cashflow from capital investment	**9.8**	**29.7**	**12.6**

Financial Overview (continued)

Capital Expenditure (continued)

As anticipated, the levels of capital expenditure reduced substantially year on year and are anticipated to remain at these more subdued levels. The Group completed a number of key projects in the year ended 29 February 2020 including the completion of the redevelopment of the Reading and Slough Mercedes-Benz dealerships, Chesterfield Land Rover and Guiseley Land Rover. These developments deliver operations with greater capacity for sales and service and will underpin the Group's future profitability and cash generation.

In terms of large-scale projects, the Group will compete its final projects in the coming months being the development of the Nelson Land Rover showroom and redevelopment of Bradford Land Rover to new brand standards and capacities. This brings an end to the large-scale projects that have been undertaken by the Group over the last five years.

Managing Working Capital

The Group has generated cash from operating activities of £23.1m (2019: £51.0m) with cash absorbed by an increase in working capital of £23.6m. This was due to an expansion of the Group's fleet operations, investment in additional working capital post acquisition in the sales outlets acquired in January and February 2020 and higher general used vehicle stock levels.

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. The successful growth of the Group's fleet and commercial vehicle sales operations seen in the year has contributed to the year on year growth in working capital as has the impact of businesses acquired in the financial year, which were acquired with very low levels of working capital and have subsequently been stocked up to normal levels.

New vehicle funded inventory reduced by £7.0m as high levels of new inventory seen at the end of the last financial year partially unwound. A related £8.3m decrease in trade creditors in the year was also seen. The Group has significantly expanded its fleet operations fuelled by tactical registration activity in certain franchises. Fully paid new vehicle stock was consequently high at 29 February 2020, growing by £11.9m to £57.1m compared to 2019 levels.

Trade receivables also grew by £8.4m year on year due to the growth in fleet vehicle sales volumes and the impact of acquired businesses. Used vehicle inventory grew by £9.3m as the Group saw tightened availability of used inventory levels in the market in the second half and chose not to destock at the end of February as aggressively as it had in the prior year in order to ensure March trading was not impacted by stock shortages.

s172 Statement

During the year ended 29 February 2020, the Board of Directors acted in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its key stakeholder groups as a whole, in accordance with s172(1)(a)-(f) of the Companies Act 2006. Details of the Group's strategic imperatives and progress made towards their delivery during the year ended 29 February 2020 is presented on page 5 to 13.

The Board of Directors have identified the Group's key stakeholder groups which are set out below, including details of the nature of the relationship, the stakeholder groups' key interests and the methods used to engage with these groups. The potential impact on these stakeholder groups is key to the Board's decision-making process, including the likely consequences of any decisions in the long term. The long term consequence of the Board's decision making is considered further in the Viability Statement on page 36 to 37.

Strategic Report (continued)

s172 Statement (continued)

Set out below are details of the nature and quality of our key stakeholder relationships:

Stakeholder	Why it is important to engage	Ways we engage	Stakeholders' key interests
Customers	The Vertu mission statement is "to deliver an outstanding customer motoring experience through honesty and trust".	• Customer satisfaction surveys • Trust pilot reviews • Social media engagement • Dedicated customer services team • Focus group meetings	• Customer service • Value for money • Product knowledge • Product range • Service provision
Colleagues	Our colleagues are essential to support the delivery of the Group strategy. Ensuring that the business has the right Values and culture is of paramount importance to the business model, as set out on page 11 to 12.	• Colleague satisfaction survey • Monthly team briefs and regular communication • Apprenticeship programme • Training and development courses • Colleague awards	• Pay and employment conditions • Career opportunities • Training and development • Wellbeing
Manufacturers	The Group operates a franchise business model and therefore strong ongoing relationships with manufacturers are fundamental to this.	• Monthly financial performance reporting • Manufacturer conferences • Membership of Manufacturer dealer councils • Organisation along franchise lines	• New car volume targets • Dealership financial performance • Customer satisfaction scores • Dealership portfolio management
Finance providers	Access to finance is essential for the Group to execute its strategy as well as providing customers with the ability to finance vehicle purchases.	• Regular review meetings and reporting • Credit reviews • Budget analysis • Monthly compliance reporting • Compliance reviews	• Financial performance • Strength of financial position • Business planning and forecasting • Volumes of finance written • Compliance with regulations
Suppliers	Group suppliers are essential to delivery of the Group business.	• Periodic supplier reviews • Formal feedback and performance review	• Payment practices • Credit worthiness • Long-term relationships
Investors	Provision of clear and transparent information is essential to inform investment decisions model.	• Annual General Meetings (with voting rights as set out on page 44) • Corporate website • Annual report and accounts • RNS announcements • Investor presentations	• Return on investment – share price and dividends • Capital allocation • Execution of strategy
Regulators	The Group operates in a highly regulated industry and therefore it is vital to achievement of the business model.	• National Franchised Dealer Association (NFDA) and Finance and Leasing Association (FLA) members • FCA engagement • MOT Club • Compliance Committee • Trading Standards engagement	• Compliance with laws and regulations • Treating customers fairly
Communities	The Group values the importance of making a positive impact and maintaining its physical presence in each of its locations.	• Community investment opportunities • Local sponsorship arrangements (For more details refer to the Corporate and Social Responsibility Report on page 39 to 42.)	• Corporate and social responsibility • Environmental impact

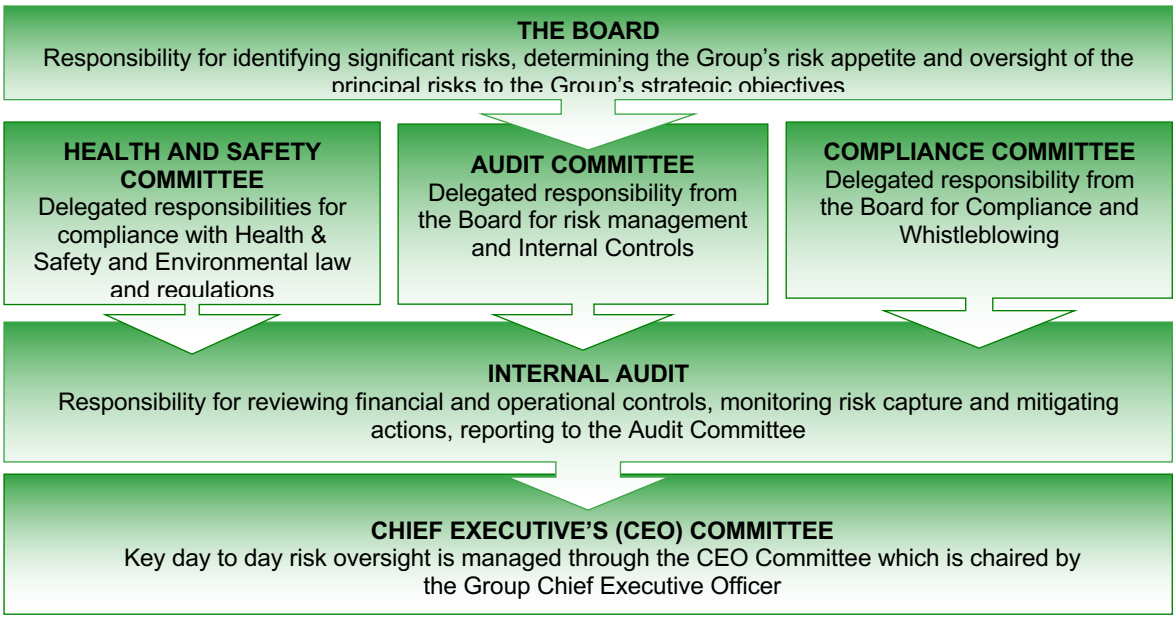
Strategic Report (continued)

Key Performance Indicators

The Group has a number of Key Performance Indicators ("KPI's") by which it monitors its business. These include analysis of results by channel; as set out on page 18, together with the below:

	KPI	Definition	Performance	Risk Factor Link
Financial KPIs	Underlying EPS	Underlying profit after tax divided by weighted average number of shares (note 13)	FY20 – Underlying EPS of 5.12p FY19 – Underlying EPS of 5.10p	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15
	Underlying PBT	Profit before tax and non-underlying items	FY20 – Underlying PBT £23.5m FY19 – Underlying PBT £23.7m	1 2 3 4 5 6 7 8 9 10 11 12 13 14 15
	Gross Margin by channel	Gross profit divided by revenue by channel	See page 18	2 3 4 5 6 9 14 15
Strategic / Operational KPIs	Like for Like Used Volume growth	Number of used vehicles sold in dealerships with comparable trading periods in two consecutive years	FY20 – decline of (0.1%) FY19 – growth of 5.3%	2 3 5 6 9 12 13 15
	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** FY20 – decline of (8.9%) FY19 – growth of 0.0% **UK private registrations** FY20 – decline of (4.8%) FY19 – decline of (5.3%)	2 3 5 9 12 14 15
	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	FY20 – Retail growth 6.8% FY19 – Retail growth 7.6%	2 6 8 9 15
	Online Growth	Website visits to all Group trading websites	FY20 – 15.7m visitors FY19 – 14.0m visitors	2 3 7 9 10 11 15
	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	97% (FY19: 97%) of our used vehicle customers would recommend us – Judge Service	4 7 8 9

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 page 47. The statement by the auditors about their reporting responsibilities is given on page 76.

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, chaired by the COO and made up of members of senior management including the CFO and Company Secretary. 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, made up of members of senior management.

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

Risk Management and Internal Controls (continued)

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:

STRATEGIC

	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 • 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 opportunities • Omni-channel development / digital progress • 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 • Building on the Group's established on-line sales capability

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

Principal Risks and Uncertainties (continued)

ECONOMIC, POLITICAL AND ENVIRONMENTAL

	Description of risk	Impact	Mitigation
5	Economic conditions, including the lasting effects of the measures to tackle COVID-19 and the potential consequences of the UK decision to leave the EU, impacting trading	Volume and margin are affected particularly in vehicle sales Amendments to franchise contracts, embracing new legislation Taxes and tariffs	• Close monitoring of UK and European economic conditions • Maintain close relationships with manufacturer partners • Focus on retention initiatives particularly in aftersales • Focus on cost control
6	Market and environmental considerations may drive fluctuation in used vehicle values	Used vehicle margin is affected 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 changes

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 and/or reputational impact	• Standard Group-wide policies and procedures are in place to ensure compliance with relevant regulations, adherence to which is overseen by the Compliance Committee • In-house developed sales system to ensure regulatory compliance and ease of customer journey, with key checks in place. • 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 regulatory changes, and ensure continued customer relationship
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 • Risk assessments in respect of COVID-19 carried out in all locations • Training for all colleagues • Specific H&S dashboard developed, monitoring KPIs • Independent external H&S audits carried out

COLLEAGUES

	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 on-line and formalised training and development programmes delivered by in-house training department and external trainers as appropriate • Talent review and succession plans in place

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 or key system provider is targeted for malicious cyber attack	Business is interrupted Data 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 • 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
15	Financial impact of global COVID-19 pandemic	Deterioration in profitability and cash flow due to significant curtailment of operations in respect of the Governments response to the pandemic Reduction in used car stock values due to lower sales volumes and falling consumer demand Potential for economic decline after restrictions are lifted	• Monitoring of cashflow forecasts and modelling various trading scenarios. • Ongoing dialogue with banks to ensure facilities reflect appropriate requirements (including both the waiver of covenants for the period 1 March 2020 to 31 August 2020 and commitment by the Group's banks to review covenant measurement thereafter). • Detailed stock management and reporting system with internal limits in place to stimulate cash flows. • Ongoing review of market data to align used car valuations. • Focus on cost control

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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 in the Strategic Report. The nature of the Group's activities is long-term, and the business model is open-ended.

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 2020 following this year's review.

Since the start of March 2020, to the Group has seen a substantial curtailment of operations in respect of the Governments response to the global COVID-19 pandemic. By their very nature forecasts and projections are inherently uncertain, inevitably the COVID-19 crisis has heightened this uncertainty such that circumstances could arise under which extreme downside scenarios may occur that would impact on the viability of the Group.

Nevertheless the strong financial position of the Group entering March 2020, the availability of committed banking facilities, the Group's utilisation of the Government's Coronavirus Job Retention Scheme and various other cash conservation measures aided the Board's assessment of viability in the light of the increase in uncertainty. The key assumptions and sensitivities applied in the financial forecasts are detailed in the basis of preparation note on page 84 to 85 of these financial statements.

Assessment of Viability

The Board has also considered the potential impact on the Group's annual business plan and its longer term strategic plan. A number of scenarios over and above those included in the plan have been considered, 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 27 to 28 of the Strategic Report and as detailed in the basis of preparation included in note 1 to the Consolidated Financial Statements.

Based on their assessment of prospects and viability as set out above, the Directors acknowledge the uncertainty around reliable forecasting as a consequence of the unique circumstances around COVID-19. Nevertheless, based on what is known at this time and based upon the forecast information available, 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 28 February 2023.

Viability Statement (continued)

Going Concern

By their very nature forecasts and projections are inherently uncertain. Inevitably the COVID-19 crisis has heightened uncertainty such that circumstances could arise under which extreme downside scenarios may occur that would render the preparation of accounts based on the assumption of a going concern inappropriate. If the downside scenario were to occur or agreement were not to be reached on waiving covenants or extending facilities beyond April 2021 this would indicate the existence of a material uncertainty which would cast significant doubt over the Group's ability to continue as a going concern. Based on what is known at this time and based upon the forecast information available, the Directors believe it appropriate to prepare accounts under the going concern basis and expect that agreement will be reached on covenant waivers and extension of facilities and that the downside scenarios will not occur. Therefore, the financial statements do not include the adjustments that would result if the Group and Company were unable to continue as going concerns.

On behalf of the Board

Robert Forrester
Chief Executive Officer
3 June 2020

Karen Anderson
Chief Financial Officer
3 June 2020

Advisors

Nominated Advisor and Broker

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82 King Street
Manchester
M2 4WQ

Solicitors

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Corporate and Social Responsibility Report

Introduction

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

1. Health and Safety
2. Environmental Management
3. Colleagues
4. 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 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.

As part of the Group's planning around the re-opening of retail premises following the COVID-19 lockdown, a sub Committee of the CEO Committee was formed to prepare a cohesive approach to health and safety. This Committee prepared a COVID-19 Safety Policy, all colleagues returning to work from furlough leave must confirm that they have read this policy and watched the accompanying training video. Colleague consultation around the safety measures introduced by this Policy was completed prior to 1 June 2020. Finally, the Committee prepared a risk assessment which was completed by all dealership General Managers for the sites under their responsibility by 22 May. Appropriate PPE has been obtained and social distancing measures will be applied in all dealerships.

Our Health and Safety Dashboard, which focuses on key risk areas within the Dealerships, is 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, telematics devices are fitted into the cars of the Group's younger drivers, as they are our largest risk population, and this system gives us real time reporting on driver behaviour.

During the year, Group locations received an independent external audit carried out without prior warning 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 also provides 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.

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. Hourly energy usage data is used to highlight areas of potential wastage for attention.

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 based on 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 supported colleagues placed on furlough through payments in April and May which were not capped at amounts claimed through the Government's Job Retention Scheme, including payments at a minimum of National Minimum Wage. 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 29 February 2020			At 28 February 2019		
	Female	Male	Total	Female	Male	Total
Directors	2	4	6	1	6	7
Group Senior Managers	6	47	53	6	48	54
All Colleagues	1,474	4,470	5,944	1,369	4,222	5,591

- 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 CEO and CFO produce blogs several times a week and regular news updates are posted onto a Group wide intranet site. Additionally, the Group produces online newsletters, which feature 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 sees 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 also 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 three years the Group has raised more than £92,000 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 Ashgate Hospicecare in Chesterfield.

In the local community, the dealerships also support a range of sporting and recreational initiatives including, the Dunston Silver Band and the Newcastle Eagles Basketball Club, 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 29 February 2020.

Principal Activities

The principal activities of the Group are 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 likely future developments of the Group.

Results and Dividends

The results for the year are set out in the consolidated income statement on page 78. The Group's profit after taxation for the year was £2,987,000 (2019: £20,536,000).

The dividend paid in the year to 29 February 2020 was £6,122,000 (1.65p per share) (2019: £5,657,000 (1.50p per share)). In light of the impact of COVID-19 on the Group, the Board does not propose a final dividend in respect of the year ended 29 February 2020.

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 publish 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. On the day of the AGM, the Board takes the opportunity to update shareholders on the Company's trading position via an RNS announcement. Normally, the Chairman and each committee chairman are available at the AGM to answer questions put by shareholders present. This year's AGM will be held with only the quorum present and the results will be published on the Company's website.

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 Companies Acts and related legislation. A Director may be appointed by an ordinary resolution of the Company's shareholders following recommendation of the Nominations Committee as approved by the Board, or following retirement by rotation if the Director chooses to seek re-election. Alternatively, the Directors may appoint a Director to fill a vacancy or as an additional Director provided that the individual retires at the next Annual General Meeting (and offers themselves to election if appropriate).

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). The authorities conferred on the Directors at the 2019 Annual General Meeting will expire on the date of the 2020 General Meeting. Details of movements in the Company's share capital are given in note 31 to the consolidated financial statements.

Directors' Report (continued)

Appointment and Powers of the Company's Directors (continued)

The Directors who served during the year ended 29 February 2020 and up to the date of this Annual Report were:

A P Goss
R T Forrester
D P Crane
K Anderson (appointed 1 March 2019)
K Lever
P Best
P Jones (resigned 24 July 2019)
M Sherwin (resigned 1 March 2019)

R Forrester and P Best will retire and offer themselves for re-election at the 2020 Annual General Meeting. At the date of the AGM, the unexpired term of the service contract of P Best will be 2 years.

Directors who held office at 29 February 2020 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.

	29 February 2020 Ordinary Shares	28 February 2019 Ordinary Shares
R T Forrester	7,071,465	6,959,510
K Anderson	893,039	N/A
D P Crane	187,670	161,940
K Lever	100,800	100,800
P Best	-	-
A P Goss	62,083	-

Details of related party transactions, which include transactions between Directors and Group companies, are given in note 38 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. Directors' and Officers' insurance has also been established for all Directors and Officers to provide cover for their reasonable actions on behalf of the Group.

Directors' Report (continued)

Share Capital

As at 29 February 2020, the Company's issued share capital comprised a single class: ordinary shares of 10 pence each of which 369,173,981 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 31 to the consolidated financial statement. All issued shares are fully paid. During the year ended 29 February 2020, the Group continued its Share Buyback Programme under which 7,431,987 ordinary shares of 10p each were repurchased at an average share price of 37p.

At 1 March 2019, 1,582,786 shares were held by Estera Trust (Jersey) Limited ("Trustee"), the trustee of the Company's employee benefit trust. The shares are held for the purpose of the trust and may be used to transfer shares to individuals exercising share options in the Company. During the year ended 29 February 2020, 528,965 of the shares purchased by the trust were transferred to individuals pursuant to exercises of options or sold to satisfy the resulting tax, and a further 1,000,000 shares were purchased by the trust at a share price of 40p per share. 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. 2,053,821 ordinary shares in the Company remained held by the Trustee at 29 February 2020.

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 2019 AGM.

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

In 2018 Biffa plc, of which Mr K Lever is a director and shareholder, acquired SWRnewstar Limited, which provides the Group's waste services. There have been no negotiations with SWRnewstar Limited since this date and Mr Lever will not be involved in any renewal or review of the Group's contract with SWRnewstar Limited. None of the other 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 29 February 2020.

Contracts (continued)

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 other than the motor vehicle franchises.

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 and utilises interest rate swaps where appropriate to manage the risk of interest rate rises on its long-term bank borrowing.

Details of the current borrowing facilities of the Group are given on pages 26 and 27 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.

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 39 to 42.

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 page 39.

Political Donations

The Group made no political donations and incurred no political expenditure during the year (2019: Nil).

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, as far as is reasonably practical, 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.

Directors' Report (continued)

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.

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 position and 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 and Strategic Report include 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.

On behalf of the Board

Karen Anderson
Chief Financial Officer
3 June 2020

Corporate Governance Report

Chairman's Corporate Governance Statement

I am pleased to present the Board's Annual Report on Corporate Governance. The Company's Values underpin the Group's strategy and support its commitment to corporate governance.

As Vertu is an AiM listed company, the Board formally adopted the QCA Corporate Governance Code ("QCA Code") with effect from 28 February 2019. The QCA Code provides a practical framework to assist the Company in developing its governance standards and this year's report is the second structured in accordance with the QCA Code principles. The Board continues to review the UK Corporate Governance Code as and when appropriate for the Company.

As the Chairman, my role is to lead the Board, ensuring it operates effectively and I take overall responsibility for the governance framework of the Company. I have worked with the Company Secretary and the Executive Directors to develop this report.

Andrew Goss
Non-executive Chairman

The principles of the QCA Code

Principle 1: Establish a strategy and business model which promotes long-term value for shareholders.

Vertu Motors plc was incorporated in 2006 to acquire franchised motor retail dealerships to create a large franchised motor retail group in the United Kingdom. The Group's Vision and strategy is set out in more detail in the Strategic Report on pages 5 to 37. The Board meet regularly to review and develop the Group's strategy.

Principle 2: Seek to understand and meet shareholder needs and expectations.

Effective communication with the Company's shareholders is crucial. The Company's advisers collate all feedback received from shareholders following results meetings with the Executive and these are fed back to the Board. The Board will also instigate contact with material shareholders to obtain feedback on other proposals from time to time.

The Executive, Chairman and Committee Chairmen are available to shareholders as and when requested. The Company Secretary can be contacted by shareholders as set out on page 38 and the Board welcomes input from shareholders.

The Executive Directors contact all material shareholders to give them the opportunity to meet with the Executive, in person or via video, after release of the annual and interim results each year. The Company also publishes an on-line video of the results presentation to allow other shareholders and stakeholders to view the results presentation. This year, the meetings are expected to be by telephone or video conference as a result of the current restrictions around COVID-19.

Principle 3: Take into account wider stakeholder and social responsibilities and their implications for long-term success.

There are a number of important stakeholders in the Group; engagement with these stakeholders is shown on page 30.

Principle 4: Embed effective risk management, considering both opportunities and threats, throughout the organisation.

The Company operates a risk management framework which is described in more detail on pages 32 to 35 together with a summary of the principal risks facing the Group.

Principle 5: Maintain the Board as a well-functioning balanced team led by the Chair.

The Board has three Non-executive Directors including the Chairman, together with three Executive Directors. The Chairman was considered independent on appointment and the other Non-executive Directors are considered to be independent.

Corporate Governance Report (continued)

The principles of the QCA Code (continued)

Principle 5: Maintain the Board as a well-functioning balanced team led by the Chair (continued).

Any potential conflicts of interest with individual Directors are reviewed annually to ensure that there is no impact on a director's judgement. The Board's committees have non-executive membership or leadership, where appropriate.

Attendance records are set out on page 54. Each Non-executive Director is expected to commit a sufficient amount of time to the role to enable them to understand the Group's business as well as attend the necessary meetings and assist with certain specific projects. The time commitment varies for each individual Director but as a minimum 2 days per month is expected. All Executive Directors are full-time and are ordinarily expected to devote their full time and attention to the Group.

Principle 6: Ensure that, between them, the Directors have the necessary up-to-date experience, skills and capabilities.

Details of the Directors are set out on pages 53 and 54 together with their skills and experience.

The Board includes a mix of sector and non-sector experience and has welcomed Non-executive Directors from a variety of backgrounds and experience to bolster the executive and provide sufficient challenge in the boardroom. The Nominations Committee continually reviews board composition to ensure that the Board provides the Group with the strategic oversight, vision and governance that it needs. Ordinarily, Non-executive Directors serve for a maximum of six years.

Ken Lever and Pauline Best are considered to be independent and Andrew Goss was considered to be independent on appointment. Ken Lever is the Senior Independent Director.

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), the Chief Financial Officer (K Anderson) and the Chief Operating Officer (D P Crane) 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.

The Nominations Committee has carried out an assessment of the skills and experience of the Directors to identify any areas of weakness that can be addressed through training or future recruitment to the Board. The Board is currently satisfied that its current composition includes an appropriate balance of experience and skills including experience in the motor retail sector, experience with motor manufacturers and other relevant areas.

All Non-executive Directors are asked to visit Group locations to see the operation of the business day to day.

The Board receives regular briefings on new regulations impacting the Group, which in the 2019-2020 year included changes to FCA Regulation to apply the Senior Managers and Certification Regime to the Group.

All Directors have access to the Company Secretary for advice on their responsibilities or relevant regulation. The Senior Independent Director also acts as a sounding board for Directors to ensure they benefit from his experience.

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

The Board has adopted an annual Board evaluation process to assess how the Board is performing and to identify any areas of improvement. This evaluation process was repeated in March 2020 by an anonymous survey by the Board. Survey results have been reviewed to agree on actions for the coming year. As a result of the 2020 review, the Board will review its meeting schedule and structure after the current COVID-19 situation.

Corporate Governance Report (continued)

The principles of the QCA Code (continued)

Principle 7: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement (continued).

This evaluation process will be repeated annually, alongside a review of progress against previous recommendations.

The Executive Directors have annual appraisals, with the CEO appraised by the Chairman, as well as receiving 360-degree feedback reviews on an annual basis.

The Nominations Committee has responsibility for succession planning for the Board and recommended Andrew Goss and Karen Anderson for appointment in the last year. Where appropriate the Committee uses external advisers to assist with candidate identification and benchmarking.

Succession planning for other senior management roles is conducted by the HR Director and CEO with input from other members of management as appropriate and overview by the Remuneration Committee.

Principle 8: Promote a corporate culture that is based on ethical values and behaviours.

The Group's values are embedded into the operation of the Group. All new colleagues receive a business-card sized copy of the Values on starting with the Group and Values are reinforced during induction on an ongoing basis. The Vision and Values are displayed in all Group premises and discussed in monthly meetings. An annual colleague survey asks whether management and Directors act in accordance with the Values and any identified shortcomings are acted upon. Results from this survey are also reviewed by the Board and site visits enable the Directors to assess dealership culture in person.

Acting in accordance with the Values is a material part of appraisals for all colleagues.

The Group has clear policies on its zero-tolerance approach on bribery and corruption, tax evasion and modern slavery. These are reinforced by annual on-line training for all colleagues and the Group operates an independent whistleblowing system so that colleagues can report any issues. Breach of the Group Values is a disciplinary matter where appropriate.

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

Led by the Chairman, the Board is responsible for generating shareholder value over the long-term by setting the Group's strategic direction. Management and the Board has established delegated authorities and controls to ensure efficient management of the Group's operations alongside appropriate control of risk. The matters reserved for the Board ensure that material transactions are undertaken only after Board review. The Schedule of Matters Reserved for the Board includes:

- 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

Full details of the matters reserved for the Board are set out on the Company's website.

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

The various Board committees have clear terms of reference that are available on the Company's website and reviewed annually, and regularly report back to the Board. Details of the Board committee responsibilities set out on page 52.

Corporate Governance Report (continued)

The principles of the QCA Code (continued)

Principle 9: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (continued).

Key Areas of Board Focus During the Year				
STRATEGY	**FINANCIAL PERFORMANCE**	**GOVERNANCE**	**SHAREHOLDER ENGAGEMENT**	**RISK**
Group strategy review Business development Reviewing M&A opportunities Approval of annual business plan and capital budget Interim and final dividend Review of colleague engagement survey	Approval of the FY2019 full year results and FY2020 interim results Monthly management accounts and comparison against annual business plan Long range forecast and funding requirement planning including the impact of sector changes	Re-appointment of auditors Monitoring Compliance and Health and Safety Committees Adoption of Senior Managers and Certification Regime by the FCA regulated entities in the Group.	Annual General Meeting Meetings with key shareholders on results roadshows.	Annual review of key Group risks and mitigating controls

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:

- Executive's Directors Report – update on performance, strategic opportunities, industry and property matters compliance update and colleague matters
- Health and Safety Report – Summary of training undertaken throughout the Group, risk management plus commentary on any reported incidents
- Investor Relations ('IR') Report – update on market trends, share register movements and summary of IR activity
- Risk Matrix – consideration of key strategic risks

The Company will continue to review corporate governance reporting to ensure visibility to its stakeholders and to keep abreast of best practice.

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company releases all material announcements through a regulatory news service and on its website and also encourages shareholders and other stakeholders to sign up to receive email updates via its website. The Company's website contains historic annual reports and announcements as well as other governance-related material.

The 2020 AGM will take place on 20 August 2020. The AGM normally gives all shareholders an opportunity to meet the Board and ask any questions they have regarding the Group and the Board encourages participation of private shareholders at the AGM. However, the Board understands that it is not always possible for shareholders to attend, and in 2020 the AGM will be held without any shareholders present other than the quorum. Instructions are sent to shareholders to enable them to appoint a proxy electronically via an on-line proxy form. Details of voting on resolutions at the AGM are then made available on the Company's website.

Corporate Governance Report (continued)

The principles of the QCA Code (continued)

Principle 10: Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders (continued).

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) • A P Goss • P Best [1]	• P Best (Chair) • P Jones [2] • K Lever • A P Goss	• P Jones (Chair) [2] • A P Goss (Chair)[3] • K Lever • P Best	• R T Forrester (Chair) • D P Crane • K Anderson • N Loose • 10 Senior Managers	• D P Crane (Chair) • K Anderson • N Loose • 2 Senior Managers	• 4 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 • Director succession planning	• 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 structure	• 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 regulatory 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 • 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 • External audit	• 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	• 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

[1] P Best was appointed to this committee on 25 April 2019.
[2] P Jones served on this committee until resignation from the Plc Board on 24 July 2019.
[3] A P Goss was appointed Chair of the Nomination Committee on 24 July 2019.

Board of Directors

Andrew Goss - Non-Executive Chairman

Appointed as a director on 3 September 2018, appointed as Chairman 24 July 2019.

Andrew (62) brings to the Group 40 years of experience in the automotive sector, having held senior roles in Citroen UK, Nissan Europe, Lexus (GB), Toyota (GB), Porsche and most recently Jaguar Land Rover. Between 2010 and 2013 Andrew headed Jaguar Land Rover's business in North America as its President and CEO, and between 2013 and 2018 he sat on the Jaguar Land Rover Board as Global Sales Operations Director. During this period he also represented Jaguar Land Rover in its joint venture interests in China and in its Spark 44 advertising agency.

Andrew was appointed as Non-Executive Chairman of the Group on 24 July 2019 after previously having served as Non-Executive Director.

Ken Lever – Non-Executive Director

Appointed 1 June 2015

Ken (66) 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 Chairman of Biffa plc and RPS Group plc and a Non-executive Director of Blue Prism plc and Gresham House Strategic plc. From 2007 to 2013, Ken was a Member of the Accounting Council of the Financial Reporting Council (formerly the UK Accounting Standards Board).

Ken is highly experienced in public company boardrooms as well as PLC transactions and also brings technical financial experience to the Board and his role as Chair of the Audit Committee.

Pauline Best – Non-Executive Director

Appointed 31 May 2016

Pauline (56) is an experienced Human Resources professional who was 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 human resources and people experience is invaluable as Chair of the Remuneration Committee and she also brings that perspective to the Board.

Robert Forrester – Chief Executive Officer

Appointed 6 November 2006

Robert (50) 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 was also a member of the Economic Growth Board of the Confederation of British Industry. Robert founded the Company in 2006.

David Crane – Chief Operations Officer

Appointed 26 July 2018

David (52) was appointed as Commercial Director of the Group in February 2007 having been previously at Reg Vardy PLC since 1999. He was Commercial Director of Reg Vardy PLC between 2004 and 2006, until the sale of Reg Vardy PLC to Pendragon PLC in February 2006, at which point he was appointed Group Services Director of Pendragon PLC. Prior to his employment with Reg Vardy PLC he was Aftersales Operations Manager at Renault UK between 1991 and 1999. He was appointed to the position of COO in March 2016.

Corporate Governance Report (continued)

Board of Directors (continued)

Karen Anderson – Chief Financial Officer

Appointed 1 March 2019

Karen (48) was the Finance Director of the Group from 2006 to 2010 through its initial flotation and growth period, and has now stepped back into the Chief Financial Officer role from her role as Deputy CFO and Company Secretary.

From 2001 to 2006 she was employed by Reg Vardy PLC, where she ultimately held the position of Group Financial Controller. Karen qualified as a chartered accountant with Arthur Anderson. She was also a Trustee Director of the Group's defined benefit pension scheme, the Bristol Street Pension Scheme from 2007 to 2019.

Karen has a wealth of motor industry finance experience together with detailed knowledge of the operations of the Group, having helped to found the Company in 2006.

Board Attendance

During the financial year the Board met 9 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
A P Goss	16	15	3	3	2	-	8	7
P Jones [1]	8	8	1	1	2	2	4	4
R T Forrester	16	16	-	1	-	-	-	-
D P Crane	16	16	-	-	-	-	-	-
K Anderson	16	16	-	3	-	-	-	-
K Lever	16	16	3	3	2	2	8	8
P Best [2]	16	15	3	2	2	2	8	8

[1] P Jones resigned on 24 July 2019
[2] P Best was appointed to the Audit Committee on 25 April 2019

Director appointment and re-election

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. 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.

By order of the Board

Nicola Loose
Company Secretary
3 June 2020

Corporate Governance Report (continued)

Audit Committee Report

Audit Committee Membership and Meetings

During the year the Audit Committee was comprised of Committee Chairman, K Lever and two other Non-Executive Directors of the Group, namely, A P Goss and P Best following her appointment to the Audit Committee on 25 April 2019. The Committee met three times during the financial year and attendance is shown in the table on page 54.

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

The key responsibilities of the Committee are set out in the table on page 52.

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
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, based on forecast future cash flows. In the light of the curtailment of operations in respect of the Governments response to the global COVID-19 pandemic, a revised assessment of future cash flows has been applied. As a result, the detailed impairment review resulted in the Group incurring an impairment charge of £14,754,000 against the carrying value of goodwill and an impairment charge of £2,124,000 against two of the Group's freehold properties. Further details of the impairment charge are provided in notes 15 and 18 of the consolidated financial statements. 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 February 2020 carrying amounts shown in notes 15, 16 and 18 of the consolidated financial statements following the impairment charges noted above were appropriate and approved the disclosures.
Valuation of inventory	The Group's assessment of the valuation of used vehicle inventory at 29 February 2020 involves an element of estimate to determine the expected net realisable value post year end. Significantly reduced sales, as a result of the temporary closure of all UK vehicle sales showrooms on 24 March 2020, in accordance with Government guidelines in response to the global COVID-19 pandemic, have increased uncertainty over vehicle valuations. Key assumptions used in the valuation of used vehicle inventory at 29 February 2020 include sales which took place post year end but prior to the closure of sales operations, confirmed order take during the lockdown period, latest industry guidance and historical trends. The committee reviewed and challenged the assumptions applied in determining the valuation of inventory at 29 February 2020 as shown in note 21 and concluded that these were appropriate.

Significant issue	Action taken
Viability and Going Concern	Management have prepared detailed financial projections for a period of 12 months from the date of signing the financial statements ('Review Period'). These projections are based on the Group's detailed annual business plan, adjusted to include assumptions around the financial impact of the global COVID-19 pandemic. The key assumptions applied include: • The period of temporary closure of all the Group's sales operations from 23 March in accordance with Government guidelines. • As restrictions are lifted revenue projections are muted with an easing towards more normal levels over the Review Period. • The delivery of operating expense savings and cash savings such as a reduction in capital expenditure. Management have reviewed the output of these detailed projections alongside the Group's funding facilities and banking covenants, further details of which are provided in note 1 of the consolidated financial statements, including the waiver of banking covenants for the May 2020 and August 2020 test periods. Sensitivity analysis has been performed to model the impact of more adverse trends compared to those included in the financial projections to model the impact of severe but plausible downside risks. In the absence of mitigating actions available to the Group, when these sensitivities are applied to the financial projections, they indicate additional banking facilities may be required in 2021 over and above those which are currently secured. By their very nature forecasts and projections are inherently uncertain. Inevitably the COVID-19 crisis has heightened uncertainty such that circumstances could arise under which extreme downside scenarios may occur that would render the preparation of accounts based on the assumption of a going concern inappropriate. If the downside scenario were to occur or agreement were not to be reached on waiving covenants or extending facilities beyond April 2021 this would indicate the existence of a material uncertainty which would cast significant doubt over the Group's ability to continue as a going concern. Based on what is known at this time and based upon the forecast information available, the Directors believe it appropriate to prepare accounts under the going concern basis and expect that agreement will be reached on covenant waivers and extension of facilities and that the downside scenarios will not occur. Therefore, the financial statements do not include the adjustments that would result if the Group and Company were unable to continue as going concerns. 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 36 and 37.
Pension benefits	Assets and 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 valuation of the scheme assets and the present value of the obligations are calculated by external advisors. The Committee reviewed the assumptions applied in calculating the scheme assets and obligation (set out in note 30) at 29 February 2020 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)

Significant Issues (continued)

Significant issue	Action taken
Revenue recognition	The Group's main product/service lines are the sale of motor vehicles, parts and aftersales services. The Group operates an income recognition policy that ensures that revenue is recognised in line with satisfaction of the performance obligation, as set out in note 1 of the consolidated financial statements. Given the complexity of the initial sale of a vehicle which can represent several bundled products, judgement is involved in isolating the constituent parts of the transaction and ensuring revenue is recognised appropriately. The committee reviewed the assumptions set out in the revenue recognition policy and considered the review performed by the external auditors on adoption of IFRS 15 and confirmed that the assumptions applied are appropriate.

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 71 to 77.

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 Company Secretary, the Chief Operations Officer, the Chief Marketing Officer, the HR Director, and the seven 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 team report regularly on the audits carried out in each dealership which, for the financial year ended 29 February 2020, covered both balance sheet and sales process audits as well as audits of key financial control processes. The Group Risk 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 twelve financial years. In accordance with ethical standards requirements the audit partner responsible for the engagement was subject to rotation after each five year period and since February 2019 has been Jonathan Greenaway. 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 29 February 2020.

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

Audit Committee Report (continued)

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 advisors to undertake such work where their knowledge and experience is appropriate for the assignment. Where PricewaterhouseCoopers LLP are used the Board reviews their independence and expertise on every assignment. Other professional services firms are employed in certain cases on acquisition and disposal related assignments.

- Other non-audit services

The Independent Auditors are not permitted to provide internal audit, risk management, litigation support 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
3 June 2020

Remuneration Committee Report

Annual Statement from the Chairman of the Remuneration Committee

Introduction

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ended 29 February 2020. This Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee ("the Committee") in accordance with the Companies Act 2006, as well as with the spirit, principles and, as far as is reasonably practical, the requirements of 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) Regulations 2008, 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 2020 and is provided for information to shareholders; 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 29 February 2020 and is subject to an advisory shareholder vote at this year's AGM.

The information in the Directors' Remuneration Report set out on pages 67 to 68 highlighted as being subject to audit, has been audited by the Group's auditors.

This year's report has been written in the midst of the evolving situation regarding COVID-19 and, although it addresses some of the issues created by that and reflects the response and actions that have been taken to date, the Committee is very conscious that it will need to keep the remuneration of directors under review throughout the year, and that there may be further changes necessary as the position and impact on the Company become clearer.

Key remuneration decisions for the year to 28 February 2021

Over the course of the last financial year, the Committee carried out a comprehensive review of Executive Director packages, using the support of an independent remuneration consultant, to ensure that the Company was providing appropriate motivation and incentivisation. The Committee considered comparisons with the small cap market as well as the rest of the automotive retail sector in the UK. From this review, it was apparent that the Company's executive packages were low compared to the market, and the Committee decided that there needed to be an adjustment to ensure that there was no future retention issue. As a result of this review, the basic salaries for R Forrester and K Anderson were increased with effect from 1 March 2020. The salary for K Anderson was also increased as part of her development into the CFO role following personal targets having been met. The Committee believes that the revised salaries are competitive at the mid-market level.

The Executive Director annual bonus structure and amount agreed for the year commencing 1 March 2020 was unchanged and reflected measures on financial performance, customer satisfaction and colleague stability. The potential bonus earnings for the CEO and CFO have consequently reduced as a percentage of basic salary. Profit targets were updated to reflect the expected results for the coming year as at the time of business planning before the start of the financial year.

Over the course of the last year, the Committee has also considered the form and level of awards made to Executive Directors under the Group's Long Term Incentive Plan ("**LTIP**") and had proposed to consult shareholders on an alteration to the scheme for approval at this year's Annual General Meeting. In the light of the current situation, this has been postponed and may be considered further by the Committee later in the year.

Other senior management colleagues in the Group received a new form of share incentive for the year commencing 1 March 2020. Under this scheme, colleagues received nil cost share options in the Company pro rata to their basic salary. The amount of options vesting are then determined by the performance of that individual colleague against their annual bonus targets. Vested options can then be exercised after February 2024 if colleagues remain employed by the Group. The Committee believed that this provided an additional element of remuneration to ensure the Group remains competitive in the market and would have the longer term benefit of increasing colleague ownership of shares in the Company and acting as a retention tool.

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

COVID-19

In light of the significant impact of COVID-19 on the Group, the Committee has carried out further reviews of remuneration for the coming year.

Under the terms of the Governments response to the pandemic, the Group's vehicle sales operations were required to close on 24 March 2020. The Company used the furlough scheme outlined by the Government to agree that approximately 80% of Group colleagues would be placed on furlough leave from dates in March and April. The Group has applied for grants under the Government's Job Retention Scheme in respect of such furloughed colleagues. All furloughed colleagues, including new starters, received 80% of their average earnings in April and May with a minimum payment of National Minimum Wage. The £2,500 per month cap in Government funding was not applied to colleagues' pay. All colleagues who remained at work were paid in full (other than certain senior management who accepted a pay cut and other higher paid colleagues where certain caps were applied). The Directors were unanimous that supporting colleagues at this critical time was the appropriate action to take.

In consultation with the Executive Directors, no alteration to the LTIP will be proposed for this year and the Committee has further resolved that no awards under the LTIP scheme will be issued to the Executive Directors for the year commencing 1 March 2020. In addition, the Executive Directors have waived their right to the LTIPs issued in the year ended 29 February 2020 and these have been cancelled.

The Executive Directors have also waived 30% of their basic salary and pension contribution for the months of dealership closure of April and May. The non-exec directors of the Company have taken a corresponding reduction in fees. With the agreement of the Committee, the Executive Directors have also agreed to waive their annual bonus entitlement for the financial year ended 28 February 2021, notwithstanding that some elements may have entitled them to payment.

In addition, other senior management have waived 20% of basic salary and pension contribution for the months of dealership closure of April and May.

As a consequence of the significant curtailment in sales activity resulting from the COVID-19 impact, it is unlikely that bonus for the financial year to 28 February 2021 will now be paid to the majority of senior colleagues. This will be reviewed by the Committee later in the year and the Committee reserves the right to determine that alternative incentives, whether cash or share based, are provided to non-director colleagues for performance where appropriate.

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 29 February 2020. 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. 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
3 June 2020

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 ordinarily 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 periodically to reflect experience, 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 two company cars, or access to an employee car ownership scheme, health insurance, critical illness and life assurance 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, customer outcome targets including manufacturer new car and service customer satisfaction ("CSI") scores as well as used car Judge Service results, and colleague stability targets.	Paid in cash after the end of the financial year to which it relates. No bonus will be paid for the 2020/21 financial year following a waiver by the executive directors in response to the impact of COVID-19 on the Group.	It is the normal policy of the Committee to cap maximum annual bonuses. The level of such caps are reviewed annually.	Targets are based on adjusted profit before tax of the Group and customer outcome measures. The Committee sets performance measures, 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 of 75%. Payment of any bonus earned is subject to overriding discretion of the Committee in the event of gross misconduct.

Remuneration Committee Report (continued)

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.	No options will be issued to the Executive Directors for the 2020/21 financial year. Normally, 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 2 year holding period required following the vesting period 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 a target adjusted profit before tax over the performance period. The metrics for use from 2021 onwards are under review.
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 currently 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. Any new Directors would receive a pension contribution in line with the majority of the workforce.	None

Remuneration Committee Report (continued)

Remuneration Policy (continued)

Notes to the Policy Table

Differences from remuneration policy for all employees

All employees of the Company are entitled to base salary or hourly rate and various 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 described above to Executive Directors (although they were historically granted to other senior management).

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 and other share schemes.

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 most recent time the Committee consulted with certain major shareholders was in relation to the amendments to the LTIP performance criteria approved at the 2019 AGM. The Committee also takes into account emerging best practice and guidance from major institutional shareholders and advisors.

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 (subject to the statement regarding pension contributions and any specific personal targets or development), 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.

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.	

Remuneration Committee Report (continued)

Remuneration Policy (continued)

Directors' Service Contracts, Notice Periods and Termination Payments (continued)

Provision	Policy	Details
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 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.

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 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

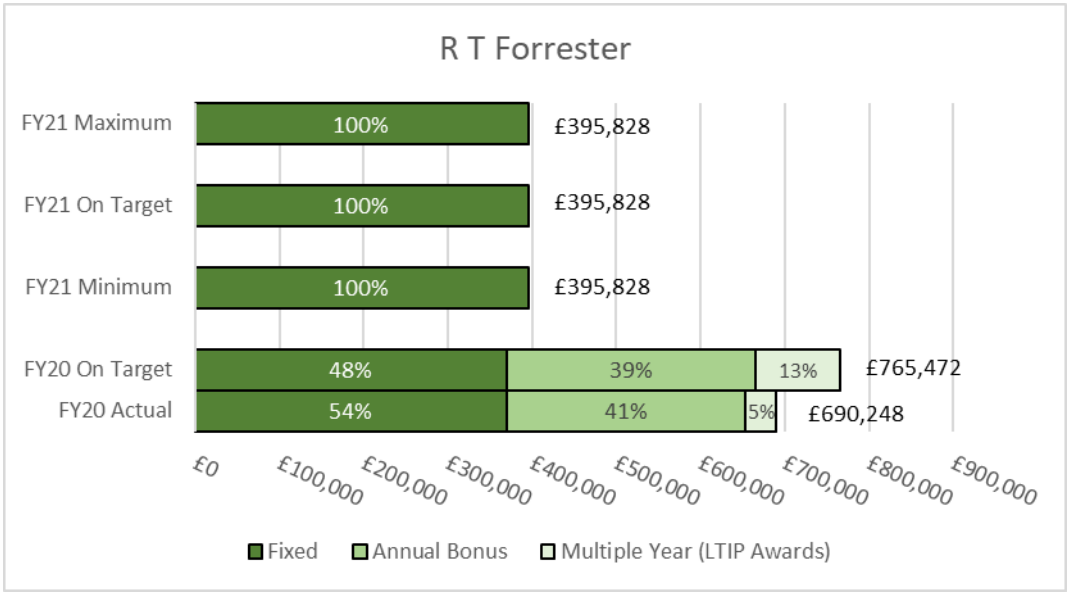
Directors' Remuneration Report

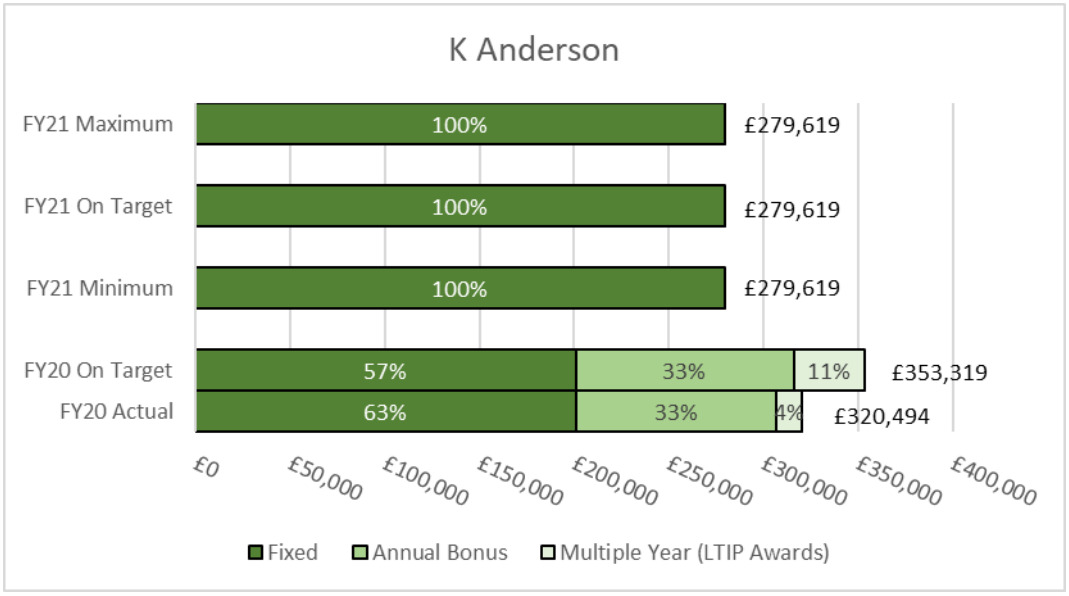
Remuneration Policy (continued)

Total 2020/21 Remuneration Opportunity

The chart below illustrates the remuneration that would be paid to each of the Executive Directors in 2020/21 financial year 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. The element included for multiple year (LTIP Awards) relates to options which are capable of vesting in the financial year to 28 February 2021. Subsequent to 29 February 2020, the June 2017 LTIP awards lapsed in full as a result of not satisfying the relevant performance conditions. The waiver of bonus and LTIP mean that the figures payable under each scenario are the same for the 2020/21 financial year.

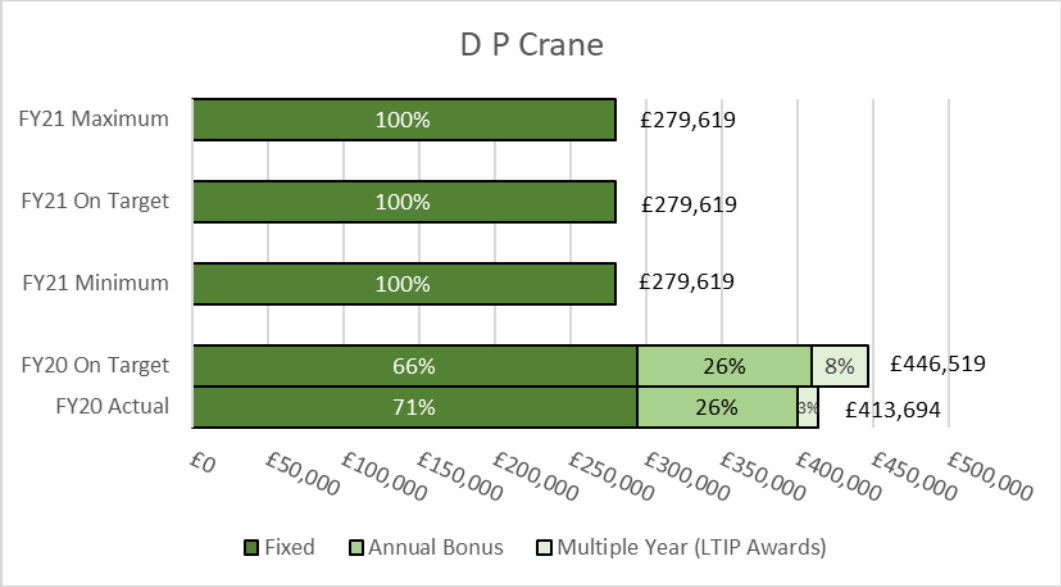




Directors' Remuneration Report (continued)

Remuneration Policy (continued)

Total 2020/21 Remuneration Opportunity (continued)



Each element of remuneration is defined in the table below:

Element	Description
Fixed	Base salary for the 2020/21 financial year plus pension and benefits.
Annual Bonus	Annual bonus awards based on adjusted profit before tax, customer outcome measures and colleague retention targets.
Multiple Year (LTIP Awards)	Value of LTIP awards which are capable of vesting in the year ending 28 February 2021.

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

Annual report on remuneration

The annual salaries and fees to be paid to Directors in the year ending 28 February 2021 are set out in the table below, together with any increase expressed as a percentage.

	Annual Salary/fees		
	28 February 2021 £'000 [1]	29 February 2020 £'000	Increase %
R T Forrester	355	315	12.7%
K Anderson[2]	250	170	47.1%
D P Crane	250	250	-
K Lever	55	55	-
P Best	40	40	-
A P Goss[3]	100	75	33%

[1] The Executive Directors have waived 30% of their basic salary for the months of April and May, and the Non-Executive Directors have waived 30% of their fees for the months of April and May. The figures in the table above do not include this reduction.

[2] The salary for K Anderson was increased as a result of a stepped-increase linked to individual goals as part of development into the CFO role, as well as the wider market review.

[3] A P Goss was appointed Non-Executive Chairman of the Group on 24 July 2019. Prior to this, he served as a Non-Executive Director and therefore the annual salary for the year ended 29 February 2020 reflects the full year equivalent of the amount received while serving as Non-Executive Chairman.

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 2019 to 29 February 2020 is as follows:

	Salary or fees £'000		Taxable Benefits[6] £'000		Pension £'000		Bonus £000		Long Term Incentive Plan[7] £'000		Single total figure £'000	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Executive Directors												
R T Forrester	**315**	315	**3**	3	**52**	52	**283**	246	**37**	-	**690**	616
K Anderson[1]	**170**	-	**3**	-	**28**	-	**106**	-	**14**	-	**321**	-
M Sherwin[1]	**-**	210	**-**	3	**-**	35	**-**	166	**-**	-	**-**	414
D P Crane[2]	**250**	117	**3**	2	**41**	19	**106**	51	**14**	-	**414**	189
Non-Executive Directors												
P Jones[3]	**28**	70	**1**	1	**-**	-	**-**	-	**-**	-	**29**	71
K Lever	**55**	55	**-**	-	**-**	-	**-**	-	**-**	-	**55**	55
N Stead[4]	**-**	33	**-**	1	**-**	-	**-**	-	**-**	-	**-**	34
P Best	**40**	40	**1**	1	**-**	-	**-**	-	**-**	-	**41**	41
A P Goss[5]	**76**	20	**1**	1	**-**	-	**-**	-	**-**	-	**77**	21

1. M Sherwin resigned on 1 March 2019 and therefore there is no data for the year ended 29 February 2020. On the same date K Anderson was appointed and therefore there is no comparative data for the financial year ended 28 February 2019.
2. D P Crane was appointed on 26 July 2018, his remuneration for the year to 28 February 2019 is calculated from the date of appointment to 28 February 2019.
3. P Jones resigned on 24 July 2019, his fee for the year to 29 February 2020 represents payments made from 1 March 2019 until the date of resignation.
4. N Stead resigned on 31 December 2018, his fee for the year to 28 February 2019 represents payments made from 1 March 2018 until the date of resignation.
5. A P Goss was appointed on 3 September 2018, his fee for the year to 28 February 2019 is calculated from the date of appointment to 28 February 2019. On 25 July 2019, A P Goss was appointed Non-Executive Chairman.
6. Taxable benefits include vehicle insurance, together with medical and life assurance premiums
7. The LTIP awards eligible for vesting during the year ended 28 February 2019 lapsed in full. The LTIP awards eligible for vesting during the year ended 29 February 2020 vested at a rate of 37%. The remaining 62% lapsed as a result of not satisfying the relevant performance criteria.

Annual Bonuses

The annual bonus for each of the Executive Directors is comprised of three different performance measures. The actual, on target and maximum earnings against each of these measures for the year ended 29 February 2020 are set out below, as well as further detail of the performance criteria.

	R T Forrester			K Anderson			D P Crane		
	Actual £'000	On Target £'000	Maximum £'000	**Actual £'000**	On Target £'000	Maximum £'000	**Actual £'000**	On Target £'000	Maximum £'000
Group Performance Related Bonus	**219**	225	450	**80**	82	164	**80**	82	164
Customer Outcome Bonus	**56**	56	56	**18**	18	18	**18**	18	18
Colleague Stability Bonus	**8**	15	15	**8**	15	15	**8**	15	15
Total	**283**	296	521	**106**	115	197	**106**	115	197

Group Performance Related 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 was £24m. The profit bonuses accruing to the Executive Directors in respect of the year ended 29 February 2020 are shown below:

Performance measure	Adjusted PBT £'000	R T Forrester % Basic salary payable	K Anderson % Basic salary payable	D P Crane % Basic salary payable
Actual Performance	**23,501**	**69.9%**	**47.2%**	**32.1%**
Threshold performance	24,000	71.4%	48.2%	32.8%
Maximum	31,330	142.9%	96.5%	65.6%

Customer Outcome Bonus

A customer outcome bonus is also available if the Group achieves stretching targets in respect of customer satisfaction including manufacturer new car and service CSI as well as used car Judge Service scores. To earn on target earnings in this area, 65% of Group sales departments and 60% of Group service departments had to achieve their respective manufacturer's national average target at each quarter end, and the Group had to achieve an overall "Would Recommend" score of 95%, as measured by Judge Service, at the end of each quarter.

Colleague Stability Bonus

In addition to the Group performance related bonus and the customer outcome bonus, a colleague stability bonus is available based on the percentage of colleagues with greater than 12 months service on 29 February 2020, excluding incremental headcount and acquisitions. The bonus available was £7,500 where the Group achieved a stability level of 77.5% and a further £7,500 where the Group achieved a stability measure of 80%.

Directors' Remuneration Report (continued)

Pensions

The Group operates a group personal pension plan for eligible colleagues. R T Forrester and D P Crane elected to cease active membership of the plan and receive a payment of 16.5% of current basic salary rather than Company pension contributions during the year ended 29 February 2020.

Directors' Share Options

The movement in share options held by the Directors during the year ended 29 February 2020 is as follows:

	Number at 1 March 2019	Exercised in Year	Lapsed in Year	Granted in Year	Number at 29 February 2020[2] [3]
R T Forrester	855,092	(107,565)	(182,289)	466,665	1,031,903
K Anderson	1,152,331	(40,337)	(68,358)	350,876	1,394,512
M Sherwin [1]	641,320	(80,674)	(136,717)	-	423,929
D P Crane	1,235,914	(40,337)	(68,358)	350,876	1,478,095

[1] As M Sherwin resigned on 1 March 2019, it was agreed by the Remuneration Committee that the proportion of shares that vest should be measured by using the existing performance criteria at the end of the existing performance period in line with the existing scheme rules and that any such proportion of shares that may be deemed to have vested under this arrangement may be exercised in accordance with the Scheme rules during the period of twelve months immediately following the date of vesting.

[2] The June 2017 LTIP issue lapsed in full subsequent to 29 February 2020 as a result of not satisfying the relevant performance criteria. This included options held by R T Forrester, K Anderson and D P Crane of 303,030, 113,636 and 113,636 respectively and 227,273 held by M Sherwin.

[3] Subsequent to 29 February 2020 the Executive Directors waived their entitlement to the options granted in the year and these have now been cancelled. Following cancellation of the 2019 LTIP options and lapse of the 2017 LTIP options, the remaining share options held by R T Forrester, K Anderson, and D P Crane are 262,208, 930,000 and 1,013,583 respectively and 196,656 held by M Sherwin.

Options issued prior to February 2019:

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 the Group's return on shareholders' equity ('ROE').

The TSR performance condition, applying to half of the LTIP options granted 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 is:

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

CSOP Options vesting criteria

Options issued on 2 July 2018 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 62.5p and then 100% of the options vest. At an average share price of 57.5p 50% of the options are exercisable. At prices between 57.5p and 62.5p, options will vest on a straight-line basis between 50% and 100%. At a share price below 57.5% none of the options are exercisable.

Options issued on 8 November 2018 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 50.9p and then 100% of the options vest. At an average share price of 44.6p 50% of the options are exercisable. At prices between 44.6p and 50.9p, options will vest on a straight-line basis between 50% and 100%. At a share price below 44.6p none of the options are exercisable.

Directors' Remuneration Report (continued)

Information not subject to audit

Statement of Directors' Shareholding

The Directors who held office at 29 February 2020 and their connected persons had interests in the issued share capital of the Company as at 29 February 2020 as follows:

	Number of shares held (including by connected persons)		Vested unexercised share options		Unvested share options subject to performance conditions[3]	
	29 February 2020	28 February 2019	29 February 2020	28 February 2019	29 February 2020[1]	28 February 2019
R T Forrester	7,071,465	6,959,510	-	-	1,031,903	855,092
K Anderson	893,039	N/A	430,000	N/A	964,512[2]	N/A
M Sherwin	N/A	492,796	N/A	-	N/A	641,320
D P Crane	187,670	161,940	513,583	513,583	964,512[2]	722,331[2]
P Jones	N/A	1,750,000	N/A	-	N/A	-
K Lever	100,800	100,800	-	-	-	-
P Best	-	-	-	-	-	-
A P Goss	62,083	-	-	-	-	-

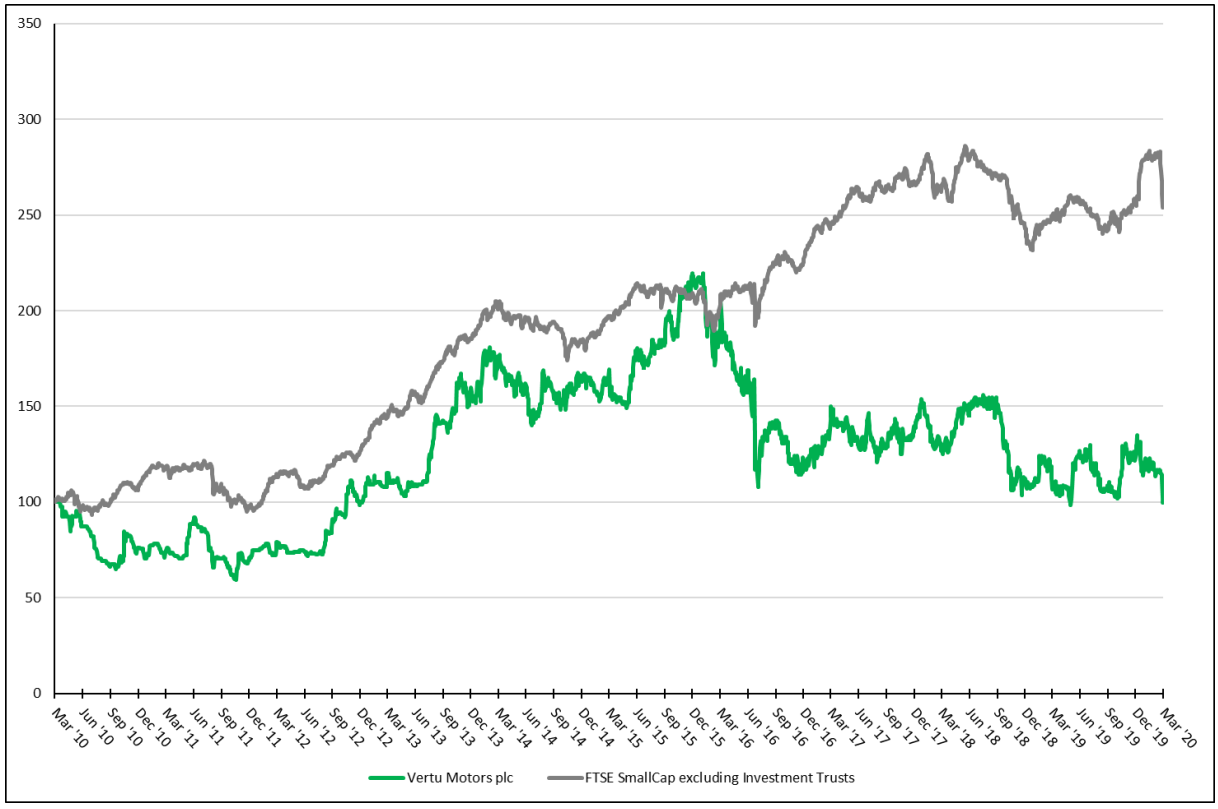
[1] The June 2017 LTIP issue lapsed in full subsequent to 29 February 2020 as a result of not satisfying the relevant performance criteria. This included options held by R T Forrester, K Anderson and D P Crane of 303,030, 113,636 and 113,636 respectively.

[2] 500,000 of the unvested share options are CSOP options subject to vesting criteria relating to share price performance.

[3] Subsequent to 29 February 2020 the Executive Directors waived their entitlement to the LTIP options granted in the year and these have now been cancelled. Following cancellation of the 2019 LTIP options and lapse of the 2017 LTIP options, the remaining share options held by R T Forrester, K Anderson, and D P Crane are 262,208, 930,000 and 1,013,583 respectively and 196,656 held by M Sherwin.

Performance Graph

The chart below shows the Company's eight-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 29 February 2020 was 31.7p (28 February 2019: 38.6p) and the range during the financial year was 31.1p to 42.0p (2019: 33.6p to 50.6p).

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 28 February 2019 and 29 February 2020 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	-	-	15.3%
Employees	2.0%	-	13.3%

Date of Service Contracts/Letters of Appointment

DIRECTOR	Date of service contract/ letter of appointment
P Jones (resigned 24 July 2019)	1 January 2015
R T Forrester	20 December 2006
M Sherwin (resigned 1 March 2019)	4 January 2010
K Anderson	1 March 2019
D P Crane	25 July 2018
A P Goss	19 July 2019
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.

Relative Importance of Spend on Pay

The table below sets out the total spend on remuneration in the Group in the years ended 28 February 2019 and 29 February 2020 compared with other disbursements from profit (i.e. the distributions to shareholders).

	Spend in the year ended 29 February 2020 £'000	Spend in the year ended 28 February 2019 £'000	% change
Spend on remuneration (including Directors)	200,167	192,024	4.2%
Profit distributed by way of dividend	6,122	5,657	8.2%

Shareholders' Vote on Remuneration at the 2019 AGM

2019 Directors' Remuneration Report	Number	Proportion of votes cast (%)
Votes cast in favour	153,568,637	79.34
Votes cast against	39,980,620	20.66
Total votes cast in favour or against	**193,549,257**	**100**
Votes withheld	1,000	

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 on the Company's website. The members of the Committee during the financial year were P Best (Chairman), P Jones (until 24 July 2019), K Lever and A P Goss.

Independent Auditors' Report to the members of Vertu Motors plc

Report on the audit of the financial statements

In our opinion:

- Vertu Motors plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 29 February 2020 and of the group's profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the company financial statements have been properly 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); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 29 February 2020; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern arising from COVID-19 - Group and Company

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the group's and company's ability to continue as a going concern.

Note 1 to the financial statements indicates the challenges posed by the COVID-19 pandemic and the impact this has on the group's and the company's ability to continue as a going concern in a severe but plausible downside scenario. Management have obtained additional funding post year end and have agreed covenants waivers for the period to August 2020. The forecasts prepared by management indicate that covenants will continue to be breached throughout the going concern period and waivers are not in place for the full period at the date of the financial statements. Certain banking facilities which are forecast to be utilised over the going concern period are agreed annually and as such, these facilities are in place until 30 April 2021. In addition, the forecasts prepared by management are dependent on key assumptions on revenue and continuity of current new vehicle funding, which are uncertain. Downside sensitivities on these assumptions indicate that without further mitigating action that Group may need additional banking facilities. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the group's and company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the group and company were unable to continue as a going concern.

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

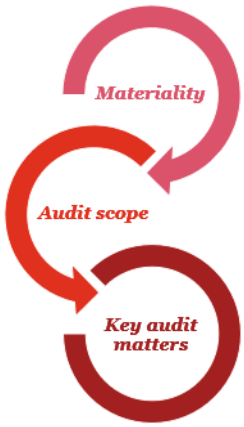
What audit procedures we performed

In concluding there is a material uncertainty, our audit procedures included:

- We assessed management's forecasts and stress test scenarios including levers available to management to mitigate the impacts. Based on the information available at the time the Directors' approval of these financial statements, we consider the scenarios to be reasonable whilst noting the impact of COVID-19 on future sales and other inputs is currently difficult to quantify;
- We challenged management on the key assumptions included in the scenarios and confirmed management's mitigating actions are within their control;
- We read the agreements from the bank confirming the extension of the facilities available and the waiver of the covenants for the period of 1 March 2020 to 31 August 2020; and
- We evaluated management's disclosures in relation to the COVID-19 impact and found them to be consistent with the stress test scenarios performed and the accounting framework.

Our audit approach

Overview



- Overall group materiality: £2,400,000 (2019: £2,400,000), based on 0.08% of revenue.
- Overall company materiality: £2,280,000 (2019: £2,280,000), based on 1% of total assets, capped at 95% of overall group materiality.
- Three full scope audit components have been identified, alongside the company.
- This approach provides coverage of 72% of the group's revenue.
- Carrying value of intangible assets including goodwill (Group).
- Valuation of used inventory (Group).
- Accounting for manufacturer bonuses (Group).
- Valuation of pension scheme liabilities (Group).
- Carrying value of investments in subsidiaries (Parent).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

Key audit matter	*How our audit addressed the key audit matter*
Group	
Carrying value of intangible assets including goodwill The Group has significant goodwill and other intangible balances in respect of acquisitions made across various CGUs. The recoverable amount of the CGU is impacted by various factors, a number of which are outside of Vertu's control, which could affect whether results are in line with expectations. COVID-19 has increased the risk of impairment given the post year end impact on trading. Where this is the case and a CGU has been subject to poor historical performance, there is a risk around the recoverability of goodwill and other intangible assets. There is inherent uncertainty and judgement in forecasting future cash flows and therefore this is a judgemental area of the audit. Group	To address this risk, we have performed the following: Assessed the Group's budgeting procedures as a basis for value in use calculations; Compared historical performance to historical forecasts to assess accuracy in the budget process; Assessed the appropriateness of CGUs used for Goodwill and other intangible assets; Key inputs are assessed, for example discount rates, inflation and forecast revenues and costs; We performed sensitivity analysis on the forecasts, including downside scenarios to assess headroom. ***Key observations*** We are satisfied with management's conclusion on the carrying value of goodwill and other intangibles based on the audit evidence obtained.
Valuation of used inventory (including demos) The Group holds significant levels of vehicle inventory. Used vehicle selling prices can vary depending upon a number of factors, and as a result large price fluctuations can be experienced in short periods. COVID-19 has significantly reduced the level of sales post year end, impacting the level of data on which to assess the valuation of used stock. Therefore, valuation and provisions in relation to used stock is an area of particular judgement. Group	To address the risk of valuation on used vehicle inventory we have: Performed detail testing over the used vehicle stock held at year end, relying on the reduced levels of sales post year end and market data on car valuations. Performed analysis on the used vehicle stock to understand history of profits and losses on used car stock, and use this to assess the adequacy of the year end provision; Considered the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the vehicle inventory provision. ***Key observations*** We are satisfied based on the procedures performed that the valuation of used vehicle stock was reasonable based on the audit evidence received.
Accounting for manufacturer bonuses The level of manufacturer bonus the group receives has a significant impact on financial performance . Due to the complex nature of some of these arrangements, there is often judgement required in relation to whether targets have been met at a point in time. As a result, the related income recognised is a judgemental part of the audit.	To address this risk in respect of manufacturer bonus income, we have: Agreed the manufacturer bonus income through to supporting documentation; Tested the key controls in place around commercial income recognition; Compared prior year judgements to the final commercial income received. ***Key observations***

Key audit matter	*How our audit addressed the key audit matter*
Group	We are satisfied with the recognition of commercial income in the year based on the audit evidence received.
Valuation of pension scheme liabilities There is inherent judgement in valuing the Group's post-retirement benefit liabilities within the pension scheme. The nature of the calculation means that small movements in key assumptions could have a significant effect on the pension deficit. In addition, factors impacting the pension liability can be outside of management's control. Group	To address this risk in respect of valuation of pension scheme liabilities, we have: Used our actuarial specialists to review the appropriateness of the assumptions used; Compared key inputs, such as mortality/life expectancy, discount rate and inflation rate to market data; Considered the adequacy of the group's disclosure in respect of the sensitivity of the scheme liabilities to changes in key inputs. ***Key observations*** We concluded that the key inputs used in calculating the pension liability were within an acceptable range when compared with market data.

Company	
Carrying value of investments in subsidiaries The Group has significant investments in respect of acquisitions made across various subsidiaries. The recoverable amount of the subsidiary is impacted by various factors, a number of which are outside of Vertu's control, which could affect whether results are in line with expectations. COVID-19 has increased the risk of impairment given the post year end impact on trading. Where this is the case and a subsidiary has been subject to poor historical performance, there is a risk around the recoverability of this investment. There is inherent uncertainty and judgement in forecasting future cash flows which are above more recent results, and therefore this is a particularly judgmental area of the audit. Parent	To address this risk, we have done the following: Assessed the Group's budgeting procedures as a basis for value in use calculations; Compared historical performance to historical forecasts to assess accuracy in the budget process; Key inputs are assessed, for example discount rates, inflation and forecast revenues and costs; We performed sensitivity analysis on the forecasts, including downside scenarios to assess headroom. ***Key observations*** We are satisfied with management's conclusion on the carrying value of investments on the audit evidence obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Vertu Motors group has grown organically and through acquisition, and as a result has a number of subsidiary entities which contain legacy acquired dealerships. Much of the day to day accounting function is performed at these individual dealership levels, with the support of a central group accounting function.

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

As a result of this structure there are three components which required a full scope audit of their financial information, due to their size and contribution to the financial results of the group. These are Bristol Street First Investments Limited, Bristol Street Fourth Investments Limited and Albert Farnell Limited. Vertu Motors Plc is also subject to full scope audit of its financial information, due to the separate presentation of these financial statements within this report.

The audit work over these components is performed principally from the central group accounting function, however site visits to all in scope components are carried out as part of our audit procedures, in order to verify the existence of stock, and to carry out testing over sales records.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	***Company financial statements***
Overall materiality	£2,400,000 (2019: £2,400,000).	£2,280,000 (2019: £2,280,000).
How we determined it	0.08% of revenue.	1% of total assets, capped at 95% of overall group materiality.
Rationale for benchmark applied	We applied our professional judgement to determine an amount that was relevant to both revenue and profit before tax, which are measures used to assess the performance and growth objectives of the group, as well as the scale of the group's operations.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1,500,000 and £2,280,000.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £120,000 (Group audit) (2019: £120,000) and £114,000 (Company audit) (2019: £114,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 29 February 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

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

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Jonathan Greenaway (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
3 June 2020

Consolidated Income Statement

For the year ended 29 February 2020

	Note	Underlying items 2020 £'000	Non-underlying items 2020 (Note 8) £'000	Total 2020 £'000	Underlying items 2019 £'000	Non-underlying items 2019 (Note 8) £'000	Total 2019 £'000
Revenue	5	3,064,530	-	3,064,530	2,982,200	-	2,982,200
Cost of sales		(2,730,473)	-	(2,730,473)	(2,660,095)	-	(2,660,095)
Gross profit	5	**334,057**	**-**	**334,057**	**322,105**	**-**	**322,105**
Operating expenses	6	(304,995)	(12,589)	(317,584)	(294,714)	1,622	(293,092)
Operating profit		**29,062**	**(12,589)**	**16,473**	**27,391**	**1,622**	**29,013**
Finance income	11	405	-	405	276	-	276
Finance costs	11	(5,966)	(3,595)	(9,561)	(3,957)	-	(3,957)
Profit/(loss) before tax		**23,501**	**(16,184)**	**7,317**	**23,710**	**1,622**	**25,332**
Taxation	12	(4,523)	193	(4,330)	(4,470)	(326)	(4,796)
Profit/(loss) for the year attributable to equity holders		**18,978**	**(15,991)**	**2,987**	**19,240**	**1,296**	**20,536**
Basic earnings per share (p)	13			**0.81**			**5.45**
Diluted earnings per share (p)	13			**0.80**			**5.37**

Consolidated Statement of Comprehensive Income

For the year ended 29 February 2020

	Note	2020 £'000	2019 £'000
Profit for the year		**2,987**	**20,536**
Other comprehensive income / (expense)			
Items that will not be reclassified to profit or loss:			
Actuarial gains / (losses) on retirement benefit obligations	30	2,400	(269)
Deferred tax relating to actuarial (gains) / losses on retirement benefit obligations	30	(408)	46
Items that may be reclassified subsequently to profit or loss:			
Cash flow hedges	32	(468)	67
Deferred tax relating to cash flow hedges	32	80	(11)
Other comprehensive income / (expense) for the year, net of tax		**1,604**	**(167)**
Total comprehensive income for the year attributable to equity holders		**4,591**	**20,369**

Consolidated Balance Sheet

As at 29 February 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Goodwill and other indefinite life assets	15	99,315	112,278
Other intangible assets	16	2,120	2,599
Retirement benefit asset	30	8,867	6,430
Property, plant and equipment	18	229,148	224,818
Right-of-use assets	19	87,013	-
Derivative financial instruments	27	-	44
Total non-current assets		**426,463**	**346,169**
Current assets			
Inventories	21	639,177	618,675
Trade and other receivables	23	71,720	62,893
Cash and cash equivalents	24	40,839	66,519
		751,736	748,087
Property assets held for sale	22	417	1,324
Total current assets		**752,153**	**749,411**
Total assets		**1,178,616**	**1,095,580**
Current liabilities			
Trade and other payables	25	(716,270)	(717,264)
Deferred consideration	17	-	(1,500)
Current tax liabilities		(2,935)	(3,731)
Contract liabilities	29	(10,974)	(9,590)
Borrowings	26	(25,547)	(23,166)
Lease liabilities	19	(14,071)	-
Total current liabilities		**(769,797)**	**(755,251)**
Non-current liabilities			
Borrowings	26	(43,657)	(43,600)
Lease liabilities	19	(82,823)	-
Derivative financial instruments	27	(493)	(69)
Deferred consideration	17	-	(2,600)
Deferred income tax liabilities	28	(8,179)	(7,594)
Contract liabilities	29	(10,294)	(9,823)
Total non-current liabilities		**(145,446)**	**(63,686)**
Total liabilities		**(915,243)**	**(818,937)**
Net assets		**263,373**	**276,643**
Capital and reserves attributable to equity holders of the Group			
Ordinary share capital		36,917	37,661
Share premium		124,939	124,939
Other reserve		10,645	10,645
Hedging reserve		(407)	(19)
Treasury share reserve		(803)	(602)
Capital redemption reserve		2,810	2,066
Retained earnings		89,272	101,953
Total equity		**263,373**	**276,643**

These financial statements on pages 78 to 126 have been approved for issue by the Board of Directors on 3 June 2020 and signed on its behalf by:

Robert Forrester
Chief Executive

Karen Anderson
Chief Financial Officer

Consolidated Cash Flow Statement

For the year ended 29 February 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Operating profit		16,473	29,013
Profit on sale of property, plant and equipment	6	(238)	(520)
Amortisation of other intangible assets	16	595	543
Depreciation of property, plant and equipment	18	11,309	10,722
Depreciation of right of use asset	19	14,065	-
Impairment charges	8	16,878	-
Change to fair value of contingent consideration	8	(2,500)	-
Movement in working capital	34	(23,563)	18,861
Share based payments charge		619	904
Cash inflow from operations		**33,638**	**59,523**
Tax received		362	157
Tax paid		(5,348)	(4,860)
Finance income received		237	99
Finance costs paid		(5,792)	(3,953)
Net cash inflow from operating activities		**23,097**	**50,966**
Cash flows from investing activities			
Acquisition of businesses, net of cash, overdrafts and borrowings acquired	17	(12,398)	(31,514)
Acquisition of freehold and long leasehold land and buildings		(1,421)	(9,008)
Purchases of intangible assets		(155)	(150)
Purchases of other property, plant and equipment		(14,180)	(24,681)
Proceeds from disposal of property, plant and equipment		3,255	3,964
Net cash outflow from investing activities		**(24,899)**	**(61,389)**
Cash flows from financing activities			
Proceeds from borrowings	33	2,381	44,455
Principal elements of lease repayments	33	(16,987)	-
(Purchase) / sale of treasury shares		(401)	64
Repurchase of own shares		(2,749)	(3,629)
Dividends paid to equity holders		(6,122)	(5,657)
Net cash (outflow) / inflow from financing Activities		**(23,878)**	**35,233**
Net (decrease) / increase in cash and cash equivalents	33	**(25,680)**	**24,810**
Cash and cash equivalents at beginning of year		66,519	41,709
Cash and cash equivalents at end of year	24	**40,839**	**66,519**

Consolidated Statement of Changes in Equity

For the year ended 29 February 2020

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2019	37,661	124,939	10,645	(19)	(602)	2,066	101,953	276,643
Effect of adoption of accounting policy (note 1)	-	-	-	-	-	-	(9,208)	(9,208)
Balance at 1 March 2019 adjusted	37,661	124,939	10,645	(19)	(602)	2,066	92,745	267,435
Profit for the year	-	-	-	-	-	-	2,987	2,987
Actuarial gains on retirement benefit obligations	-	-	-	-	-	-	2,400	2,400
Tax on items taken directly to equity	-	-	-	80	-	-	(408)	(328)
Fair value losses	-	-	-	(468)	-	-	-	(468)
Total comprehensive income for the year	-	-	-	(388)	-	-	4,979	4,591
Sale of treasury shares	-	-	-	-	200	-	(200)	-
Purchase of treasury shares	-	-	-	-	(401)	-	-	(401)
Repurchase of own shares	-	-	-	-	-	-	(2,749)	(2,749)
Cancellation of repurchased shares	(744)	-	-	-	-	744	-	-
Dividend paid	-	-	-	-	-	-	(6,122)	(6,122)
Share based payments charge	-	-	-	-	-	-	619	619
As at 29 February 2020	**36,917**	**124,939**	**10,645**	**(407)**	**(803)**	**2,810**	**89,272**	**263,373**

The repurchases of own shares in the year were made pursuant to the share buyback programme announced on 24 July 2019 as well as the previous programme announced in 2018, and under the authority renewed at the AGMs in 2018 and on 24 July 2019.

Ordinary shares to the value of £2,749,000 had been repurchased in the year ended 29 February 2020 (2019: £3,455,000), of which £Nil was unpaid at 29 February 2020 (2019: £Nil). Such repurchases of shares all occurred prior to October 2019. 7,431,987 of repurchased shares were cancelled in the year ended 29 February 2020 (2019: 8,918,549) and accordingly, the nominal value of these shares has been transferred to the capital redemption reserve.

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

Consolidated Statement of Changes in Equity (continued)

For the year ended 28 February 2019

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2018	38,552	124,934	10,645	(75)	(690)	1,175	89,877	264,418
Profit for the year	-	-	-	-	-	-	20,536	20,536
Actuarial losses on retirement benefit obligations	-	-	-	-	-	-	(269)	(269)
Tax on items taken directly to equity	-	-	-	(11)	-	-	46	35
Fair value gains	-	-	-	67	-	-	-	67
Total comprehensive income for the year	-	-	-	56	-	-	20,313	20,369
Sale of treasury shares	-	5	-	-	88	-	(29)	64
Repurchase of own shares	-	-	-	-	-	-	(3,455)	(3,455)
Cancellation of repurchased shares	(891)	-	-	-	-	891	-	-
Dividend paid	-	-	-	-	-	-	(5,657)	(5,657)
Share based payments charge	-	-	-	-	-	-	904	904
As at 28 February 2019	**37,661**	**124,939**	**10,645**	**(19)**	**(602)**	**2,066**	**101,953**	**276,643**

Notes to the Consolidated Financial Statements

1. Accounting Policies

Basis of preparation

Vertu Motors plc is a Public Limited Company which is listed on the Alternative Investment Market (AiM) and is incorporated and domiciled in 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.

In order to prepare the financial statements on the going concern basis, the Directors have considered detailed financial projections for a period of 12 months from the date of signing the financial statements ('Review Period'). These projections are based on the Group's detailed annual business plan, adjusted to include assumptions around the financial impact of the global COVID-19 pandemic. The key assumptions applied include:

- The period of temporary closure of all the Group's sales operations from 23 March in accordance with Government guidelines.
- As restrictions are lifted revenue projections are muted with an easing towards more normal levels over the Review Period.
- The delivery of operating expense savings and cash savings such as a reduction in capital expenditure.

The financial projections also assume the continued support of the Group's Manufacturer partners through their continued funding of new vehicle consignment inventory. The financial projections assume that normal adoption timings are delayed for a significant portion of new vehicle inventories until the vehicles are sold. Past experience of the Group supports this assumption.

By their very nature, forecasts and projections are inherently uncertain, however, the prepared forecasts show that the Group will operate within its committed facilities, as set out below, throughout the Review Period.

The Group has the following committed facilities available:

- A five-year acquisition revolving credit facility ('RCF') with Barclays Bank plc and Royal Bank of Scotland plc which matures on 27 February 2024. This facility provides the Group with £62.0m of committed borrowing capacity and as at 29 February 2020, £44.1 million of this facility was utilised. A further £10m was drawn on this facility in March 2020 in respect of acquisitions completed in early 2020.
- The Group also utilises used car stocking loans. As at 29 February 2020 the Group had used vehicle stocking facilities of £35m and £25.5m was utilised compared to a used vehicle inventory value of £121.3m. On 1 May the used car stocking facility limit was increased by £10m to £45m.
- In addition to the above facilities, a Committed Money Market Loan ('CMML') is utilised to fund the Group's significant peak working capital requirements, which fall in the weeks following calendar quarter ends. The Group has £68m of peak facilities for four months of each financial year and £28m of facilities at other times. In addition, the Group has a £5m overdraft facility. On 1 May 2020 the Group secured an increase to the peak CMML facility of £68m into the additional months of August and September. These working capital facilities are reviewed annually each year with the latest review completed on 1 May 2020. The established track record of annual renewal of these facilities gives the Directors confidence that they will again be renewed prior to their expiry on 30 April 2021.

Further detail on the Group's borrowing facilities is included in note 26.

1. Accounting Policies (continued)

Basis of preparation (continued)

Due to the impact of the lockdown on the Group's EBITDA, the financial projections show that existing bank covenants are forecast to be breached throughout the Review Period. Banking covenants have been formally waived for the May 2020 and August 2020 measurement periods, as detailed in note 26. Although not formalised at the date of these financial statements, the Directors are confident that the Group's banks will agree to review covenant arrangements for the November 2020 period and beyond so as to avoid the risk that a future event of default will occur.

Due to the inherent level of uncertainty over future financial performance and cash flows, as well as the importance of the key assumptions underpinning the Group's projections, sensitivity analysis has been performed to model the impact of more adverse trends compared to those included in the financial projections. These sensitivities seek to model the impact of severe but plausible downside risks to the achievement of the financial projections. The sensitivities applied were a further decrease in future sales rates and a reduction in the proportion of new vehicle consignment stock assumed to be funded by the Manufacturers. In the absence of mitigating actions available to the Group, when these sensitivities are applied to the financial projections, they indicate additional banking facilities may be required in 2021 over and above those which are currently secured.

By their very nature forecasts and projections are inherently uncertain. Inevitably the COVID-19 crisis has heightened uncertainty such that circumstances could arise under which extreme downside scenarios may occur that would render the preparation of accounts based on the assumption of a going concern inappropriate. If the downside scenario were to occur or agreement were not to be reached on waiving covenants or extending facilities beyond April 2021 this would indicate the existence of a material uncertainty which would cast significant doubt over the Group's ability to continue as a going concern. Based on what is known at this time and based upon the forecast information available, the Directors believe it appropriate to prepare accounts under the going concern basis and expect that agreement will be reached on covenant waivers and extension of facilities and that the downside scenarios will not occur. Therefore, the financial statements do not include the adjustments that would result if the Group and Company were unable to continue as going concerns.

The Directors consider the forecast future cash flows to offset the net current liabilities position at 29 February 2020, as set out in the Viability Statement on pages 36 to 37.

The consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 133 to 135 of the annual report. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 29 February 2020 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 29 February 2020 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 29 February 2020 of the subsidiaries listed below, further details of which are provided in note 36.

The subsidiaries which have taken an exemption from an audit for the year ended 29 February 2020 by virtue of s479A Companies Act 2006 are:

Albert Farnell Limited
All Car Parts Limited
Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Grantham Motor Company Limited
Hughes of Beaconsfield Limited
Macklin Property Limited
Sigma Holdings Limited
South Hereford Garages Limited
South Hereford Garages Trade Parts LLP
Tyne Tees Finance Limited
Vans Direct Limited
Vertu Ventures Limited
Vertu Motors (Chingford) Limited
Vertu Motors (Continental) Limited
Vertu Motors (Knaresborough) Limited
Vertu Motors (Property) Limited
Vertu Motors (Property 2) Limited
Vertu Motors (VMC) 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 29 February 2020 by virtue of s394A of Companies Act 2006 are:

Aceparts Limited
Best4Vans Limited
Blacks Autos Limited
Blake Holdings Limited
Boydslaw 103 Limited
Bristol Street (No.1) Limited
Bristol Street (No.2) Limited
Bristol Street Commercials (Italia) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
Brookside (1998) Limited
BSH Pension Trustee Limited
Carsandvansdirect Limited
Compare Click Call Limited
Dobies (Carlisle) Limited
Dunfermline Autocentre Limited
SHG Holdings Limited
The Taxi Centre Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (AMC) Limited
Vertu Motors (Durham) Limited
Vertu Motors (Finance) Limited
Easy Vehicle Finance Limited
Gordon Lamb Group Limited
Gordon Lamb Limited
Gordon Lamb Holdings Limited
Hillendale Group Limited
Hillendale LR Limited
Horseshoe Vehicle Contracts Limited
Hughes Group Holdings Limited
International Concessionaires Limited
K C Motability Solutions Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
National Allparts Limited
Newbolds Garage (Mansfield) Limited
Nottingham TPS LLP
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
VanMan Limited
Vertu Motors (Retail) Limited
Vertu Motors (Pity Me) Limited
Vertu Motors Property 2 Holdings Limited
Why Pay More For Cars Limited
Widnes Car Centre Limited
Widnes Car Centre (1994) Limited

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

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 29 February 2020

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 March 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 March 2019. This is disclosed below. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

1. Accounting Policies (continued)

Standards and interpretations adopted by the Group in the year ended 29 February 2020 (continued)

IFRS 16 'Leases'

In the year ended 29 February 2020, the Group has applied IFRS 16 'Leases', for the first time.

The Group leases various dealerships, compounds and vehicles. Rental contracts are typically made for fixed periods of 12 months to 150 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Group has adopted IFRS 16 retrospectively from 1 March 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the adoption of IFRS 16 have therefore been recognised in the opening balance sheet on 1 March 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 March 2019. The incremental borrowing rate applied to the lease liabilities on 1 March 2019 was 4.15% in respect of the Group's property leases, and 2.25% in respect of the Group's vehicle leases.

The associated right-of-use assets were measured on a retrospective basis as if the new rules had always been applied.

The change in accounting policy affected the following items in the balance sheet on 1 March 2019:

- Right-of-use assets – increased by £78,753,000
- Current lease liabilities – increased by £15,286,000
- Non-current lease liabilities – increased by £72,675,000

The net impact on retained earnings on 1 March 2019 was a decrease of £9,208,000.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessment of whether leases are onerous;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 March 2019 as short-term leases;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Until the year ended 28 February 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

1. Accounting Policies (continued)

Standards and interpretations adopted by the Group in the year ended 29 February 2020 (continued)

***IFRS 16* '*Leases*' (continued)**

From 1 March 2019, leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any incentives receivable,
- Variable lease payments that are based on an index or a rate,
- Amounts expected to be payable by the lessee under residual value guarantees,
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- Payment of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, or
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Vertu Motors plc, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability,
- Any lease payments made at or before the commencement date, less any lease incentives received,
- Any initial direct costs; and
- Restoration costs.

Payments associated with short-term leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss with the exception of those relating to vehicle leases. Short-term leases are leases with a lease term of 12 month or less. Low-value assets comprise small items of furniture or equipment.

1. Accounting Policies (continued)

Standards and interpretations adopted by the Group in the year ended 29 February 2020 (continued)

***IFRS 16* '*Leases*' (continued)**

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Extension and termination options

Extension and termination options are included in a number of property leases across the Group and are used to maximise flexibility to respond to the changing retail environment in the years ahead. Approximately one fifth of the Group's property leases have the benefit of a tenant break clause.

A reconciliation of total operating lease commitments to the IFRS 16 lease liability at 1 March 2019 is as follows:

	£'000
Operating lease commitments disclosed at 28 February 2019 (note 37)	104,375
Effect of discounting using incremental borrowing rate at the date of initial application	(19,799)
Impact of IFRS 16 data review *	3,385
Lease liability recognised at 1 March 2019	**87,961**
Of which:	
Current lease liabilities	15,286
Non-current lease liabilities	72,675
	87,961

* When producing transition calculations for IFRS 16, the calculations underlying the operating lease commitments note have been refined, with £3,385,000 additional present value of lease liabilities on transition identified as a result.

As the Group has adopted this accounting policy change using the modified retrospective approach in the current period and therefore comparatives have not been restated, the profit or loss impact has been presented for this transition year within non-underlying items (note 8) to enhance comparability with the previous period. Going forwards, the impact will be included in underlying profits.

Whilst having no impact on the Group's cash position, the adoption of IFRS 16 has had an impact on the presentation of the payment of lease rentals in the cash flow statement. In the comparative periods, lease rentals were included in operating expenses and therefore operating cash flows. In the year ended 29 February 2020, operating expenses instead includes a depreciation charge which has subsequently been added back to cash generated from operations. The interest element of lease repayments is presented within finance costs paid and the principal element has been included within cash flows from financing activities.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 29 February 2020 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 IFRS 3. 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.

1. Accounting Policies (continued)

Measurement period adjustment (continued)

Within the measurement period of a number of acquisitions made in the year ended 28 February 2019, the purchase price allocation was finalised which resulted in a £47,000 reduction in the fair value of trade and other receivables acquired, a £60,000 increase in the fair value of trade and other payables acquired and a £11,000 reduction in corporation tax payable. There was a corresponding increase of £96,000 in the fair value of goodwill arising on these acquisitions.

In accordance with IFRS 3, measurement period adjustments are reflected in the financial statements as if the final purchase price allocation had been completed at the acquisition date.

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.

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, brands 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, such as franchise relationships, are tested annually for impairment. Other intangible assets arising as part of a business combination are typically allocated a useful life of between ten and 20 years.

1. Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. Assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial 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 buildings	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, except where amounts are material and are disclosed separately in 'non-underlying items'.

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. Key assumptions used in the determination of net realisable value of used vehicle inventory at 29 February 2020 include sales which took place post year end but prior to the closure of sales operations on 24 March 2020, confirmed order take during the lockdown period, industry guidance and historical trends.

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.

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 estimated recoverable value, with a liability equal to the repurchase price within trade payables.

1. Accounting Policies (continued)

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.

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.

Impairment losses 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.

1. Accounting Policies (continued)

Derivative financial instruments

The Group manages its interest rate risk through hedging instruments. The Group recognises hedging instruments at fair value with any gain or loss on measurement recognised in the income statement. The Group does not hold or issue derivative financial instruments for speculative purposes.

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

The only derivative financial instrument held by the Group throughout the year is a cash flow hedge swapping floating for fixed interest rates. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance income or costs.

Amounts accumulated in equity are recycled in the income statement in the years when the hedged item affects profit and loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The fair values of derivative financial instruments used for hedging purposes are disclosed in note 27.

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

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

1. Accounting Policies (continued)

Taxation (continued)

Deferred tax (continued)

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.

Sale of motor vehicles, parts and aftersales services

Sales of vehicles and parts are recognised when the customer has control of the goods. In practice this means that revenue is recognised when vehicles or parts are invoiced and physically despatched or when a service has been undertaken. Manufacturer incentives (e.g. free service when purchasing a vehicle) do not impact the Group as the legal obligation lies with the manufacturer.

Sale of warranty products

Revenue is recognised in line with the performance obligation, i.e. the period in which the customer can exercise their rights under the warranty, and therefore recognised over the life of the warranty.

Finance commissions

Finance commissions are received for the arrangement of vehicle financing and related insurance products where the Group acts as agent on behalf of a principal. Commissions are based on agreed rates and income is recognised when the finance and/or insurance package that the customer has entered into commences. Typically, this is on delivery of the vehicle. Where the commission received relates to a specific vehicle sale, it is recognised within revenue. Where the commission received relates to a central rebate, it is recognised within cost of sales.

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. Manufacturer rebates are recognised within cost of sales.

1. Accounting Policies (continued)

Revenue (continued)

Disaggregation of revenue:

The table below shows revenue disaggregated by the Group's main product/service lines:

	2020 £'000	2019 £'000
Aftersales	258,104	257,137
Used cars	1,235,381	1,217,596
New car retail & Motability	862,517	862,824
New fleet & commercial	708,528	644,643
Total	**3,064,530**	**2,982,200**
Timing of revenue recognition:		
Recognised at a point in time	3,057,126	2,975,175
Recognised over time	7,404	7,025
Total	**3,064,530**	**2,982,200**

All of the Group's revenue was generated in the United Kingdom.

Contract liabilities

Where the Group receives consideration for a sale in advance of the performance obligation being satisfied, the amount received is held on the balance sheet within contract liabilities and released to the income statement in line with the relevant revenue recognition policy.

Pension costs

The Group operates a trust based defined benefit pension scheme, "Bristol Street Pension Scheme", which has three defined benefit sections which were closed to new entrants and future accrual on 31 May 2003, with another section closed to new entrants in July 2003 and future accrual in October 2013.

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 also 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.

1. Accounting Policies (continued)

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.

Non-underlying items

Non-underlying items are presented separately in the Income Statement to enhance comparability of trading performance between periods. Details of the items included as non-underlying are provided in note 8.

Cash and cash equivalents

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

Segmental reporting

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

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 drawn debt. The outstanding derivative instruments held by the Group at the balance sheet date are set out in note 27.

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.

2. Financial risk management (continued)

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.

As a result of financial modelling in respect of the Government's response to the global COVID-19 pandemic, the Group's banks agreed to a waiver of financial covenants for the May 2020 and August 2020 measurement periods. The Directors are confident that the Group's banks will agree to review the calculation of covenants after this date, as more certainty over the impact of closure periods due to COVID-19 is obtained, so as to avoid the risk that a future event of default will occur.

In consideration for the agreed covenant waiver, interest rates at 2.1% above LIBOR (increasing from 1.3% above LIBOR) will be applied to drawings under the RCF facility from 1 June 2020. Additionally, interest rates applicable to the Group's Committed Money Mark Loan ("CMML") facility have been increased to 1.75% above LIBOR (from 1.1% above LIBOR) from 1 June 2020 following changes to the available facility, as set out within "Liquidity Risk" below, to aid cash flow requirements as a consequence of the global COVID-19 pandemic.

No significant issues were highlighted as a result of the financial modelling and sensitivities being performed after allowing for these increased interest rates.

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 23.

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.

As set out in the Viability Statement on pages 36 to 37, since the start of March 2020, various financial scenarios have been modelled in response to the substantial curtailment of operations in respect of the Government's response to the global COVID-19 pandemic, with a cautious assessment of future cash flows as a result. The Group has worked with its banking partners to ensure that sufficient headroom is available to manage working capital requirements and consequently on 6 May 2020 the Group's peak Committed Money Market Loan ("CMML") facility of £68,000,000 usually made available in April, July, October and January was extended such that it will also be made available in August and September. Additionally, on 30 April 2020, the Group extended its used vehicle funding line from £35,000,000 to £45,000,000 to provide additional liquidity if required.

Disclosed within note 26 are the undrawn banking facilities that the Group has at its disposal.

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.

2. Financial risk management (continued)

Liquidity Risk (continued)

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	904	45,908	46,812
Other borrowings	25,547	-	25,547
Lease liabilities	14,071	82,823	96,894
Contract liabilities	10,974	10,294	21,268
Trade and other payables (excluding social security and other taxes)	709,603	-	709,603
At 29 February 2020	**761,099**	**139,025**	**900,124**

	Less than one year £'000	Between two and five years £'000	Total £'000
Bank borrowings	1,811	46,812	48,623
Other borrowings	23,166	-	23,166
Contract liabilities	9,590	9,823	19,413
Trade and other payables (excluding social security and other taxes)	711,327	-	711,327
At 28 February 2019	**745,894**	**56,635**	**802,529**

Other borrowings represent amounts repayable under used car stocking facilities.

3. Capital risk management

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

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

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

The Group had net debt of £125,259,000 (including £96,894,000 IFRS16 lease obligations) at 29 February 2020 as disclosed in note 33 to the consolidated financial statements (2019: net debt of £247,000).

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 approximates 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 is performed in accordance with IFRS 3 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.

4. Critical accounting estimates and judgements (continued)

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 15. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Details of the key assumptions used for the impairment testing for the year ended 29 February 2020, as well as the results of sensitivity analysis performed, are provided in note 15.

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 29 February 2020, the Group operated one defined benefit pension scheme, the “Bristol Street 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 29 February 2020 are provided in note 30.

Valuation of inventory

The Group’s assessment of the valuation of used vehicle inventory at 29 February 2020 involves an element of estimate to determine the expected net realisable value post year end. Significantly reduced sales, as a result of the temporary closure of all UK vehicle sales showrooms on 24 March 2020 in accordance with Government guidelines in response to the global COVID-19 pandemic, have increased uncertainty over vehicle valuations. Key assumptions used in the valuation of used vehicle inventory at 29 February 2020 of £121.3m include sales which took place post year end but prior to the closure of sales operations, confirmed order take during the lockdown period, latest industry guidance and historical trends.

Revenue recognition

The Group’s main product/service lines are the sale of motor vehicles, parts and aftersales services. The Group operates an income recognition policy that ensures that revenue is recognised in line with satisfaction of the performance obligation, as set out in note 1.

Given the complexity of the initial sale of a vehicle which can represent several bundled products, judgement is involved in isolating the component parts of the transaction and ensuring revenue is recognised appropriately.

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 Officer. The CODM receives information about the Group overall and therefore there is one operating segment.

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

Year ended 29 February 2020	Revenue £'m	Revenue Mix %	Gross Profit £'m	Gross Profit Mix %	Gross Margin %
Aftersales[1]	258.1	8.4	143.5	43.0	46.9
Used cars	1,235.4	40.3	102.1	30.6	8.3
New car retail and Motability	862.5	28.1	62.7	18.8	7.3
New fleet and commercial	708.5	23.2	25.8	7.6	3.6
	3,064.5	**100.0**	**334.1**	**100.0**	**10.9**

Year ended 28 February 2019	Revenue £'m	Revenue Mix %	Gross Profit £'m	Gross Profit Mix %	Gross Margin %
Aftersales[1]	257.1	8.6	136.0	42.2	43.9
Used cars	1,217.6	40.9	102.0	31.7	8.4
New car retail and Motability	862.8	28.9	63.9	19.8	7.4
New fleet and commercial	644.7	21.6	20.2	6.3	3.1
	2,982.2	**100.0**	**322.1**	**100.0**	**10.8**

6. Operating expenses

	2020 £'000	2019 £'000
Wages and salaries excluding share based payments charge (note 9)	173,911	167,119
Depreciation on property, plant and equipment (note 18)	11,309	10,722
Profit on disposal of property, plant and equipment	(238)	(520)
Auditors' remuneration (note 7)	240	225
Rental income	(185)	(175)
Share based payments charge	733	904
Amortisation	595	543
VAT reclaim on dealer deposit contributions	-	(3,069)
Impairment charges (notes 15 & 18)	16,878	-
Change to fair value of contingent consideration	(2,500)	-
Operating lease rentals – property	-	11,581
Operating lease rentals – plant and equipment	256	312
Operating lease rentals – vehicles	-	4,933
Depreciation on right-of-use assets	14,065	-
Other expenses	102,520	100,517
	317,584	**293,092**

[1] Margin in aftersales expressed on internal and external turnover. A significant part of the role of the service department is to support the vehicle sales department and therefore this is considered to be an important measure for the purpose of monitoring the departmental performance

7. Auditors' remuneration

	2020 £'000	2019 £'000
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	231	220
Fees payable to the Company's auditors and its associates for other services:		
- audit of Group's subsidiaries	5	5
- Other services	4	-
	240	**225**

8. Non-underlying items

	2020 £'000	2019 £'000
Impairment charges (notes 15 & 18)	(16,878)	-
Change to fair value of contingent consideration	2,500	-
Net impairment charges *	(14,378)	-
Share based payments charge	(733)	(904)
Amortisation	(595)	(543)
VAT reclaim on dealer deposit contributions	-	3,069
Impact of change in accounting policy:		
- Depreciation on right of use assets (note 19)	(14,065)	-
- Operating lease rentals – property	11,588	-
- Operating lease rentals – vehicles	5,594	-
Non-underlying operating (expenses)/income	**(12,589)**	**1,622**
Impact of change in accounting policy:		
- Finance cost	(3,595)	-
Non-underlying (loss)/profit before tax	**(16,184)**	**1,622**
Tax on non-underlying items	193	(326)
	(15,991)	**1,296**

*£2,500,000 of the impairment charges relates to Vans Direct Limited. Contingent consideration for a corresponding amount was also released.

Non-underlying items are presented separately in the Income Statement to enhance comparability of trading performance between periods.

9. Employee benefit expense

	2020 £'000	2019 £'000
Wages and salaries	176,421	169,546
Social security costs	19,013	18,712
Pension costs – defined contribution plans	4,733	3,766
	200,167	**192,024**
Share based payments charge (note 31)	733	904
	200,900	**192,928**

Employee benefit expense included in:

	2020 £'000	2019 £'000
Operating expenses	173,911	167,119
Cost of sales	26,256	24,905
Share based payment charge	733	904
	200,900	**192,928**

Details of the remuneration of the Directors who served during the year from 1 March 2019 to 29 February 2020 and the year from 1 March 2018 to 28 February 2019 are given in the Directors' Remuneration Report on pages 65 to 70.

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

	2020 Number	2019 Number
Sales and distribution	2,055	2,018
Service, parts and accident repair centres	2,235	2,069
Administration	1,413	1,285
	5,703	**5,372**

11. Finance income and costs

	2020 £'000	2019 £'000
Interest on short-term bank deposits	237	99
Net finance income relating to defined benefit pension schemes (note 30)	168	177
Finance income	**405**	**276**
Bank loans and overdrafts	(1,418)	(1,063)
Vehicle stocking interest	(4,548)	(2,894)
Lease liability interest	(3,595)	-
Finance costs	**(9,561)**	**(3,957)**

12. Taxation

	2020 £'000	2019 £'000
Current tax		
Current tax charge	4,495	5,439
Adjustment in respect of prior years	(307)	(483)
Total current tax	**4,188**	**4,956**
Deferred tax		
Origination and reversal of temporary differences	181	(137)
Adjustment in respect of prior years	(21)	(12)
Rate differences	(18)	(11)
Total deferred tax (note 28)	**142**	**(160)**
Income tax expense	**4,330**	**4,796**

	2020 £'000	2019 £'000
Profit before taxation	7,317	25,332
Profit before taxation multiplied by the rate of corporation tax in the UK of 19% (2019: 19%)	1,390	4,813
Non-qualifying depreciation	944	527
Non-deductible expenses	68	213
Change to fair value of contingent consideration	(475)	-
Goodwill impairment	2,770	-
Effect on deferred tax balances due to rate change	(18)	(11)
IFRS 16 adjustment	91	-
Property adjustment	10	(146)
Permanent benefits	(122)	(105)
Adjustments in respect of prior years	(328)	(495)
Total tax expense included in the income statement	**4,330**	**4,796**

The Group's effective rate of tax is 19.24% (2019: 18.85%) in line with the standard rate of corporation tax in the UK. The rate of 59.18% includes tax on non-underlying items (2019: 18.93%).

13. Earnings per share

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

The Group only has one category of potentially dilutive ordinary shares, which are share options. A calculation has been undertaken to determine the number of shares that could have been acquired at fair value (determined 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.

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

	2020 £'000	2019 £'000
Profit attributable to equity shareholders	2,987	20,536
Non-underlying items (note 8)	15,991	(1,296)
Underlying earnings attributable to equity shareholders	**18,978**	**19,240**
Weighted average number of shares in issue ('000s)	370,470	377,024
Potentially dilutive shares ('000s)	4,348	5,512
Diluted weighted average number of shares in issue ('000s)	**374,818**	**382,536**
Basic earnings per share	**0.81p**	**5.45p**
Diluted earnings per share	**0.80p**	**5.37p**
Basic underlying earnings per share	**5.12p**	**5.10p**
Diluted underlying earnings per share	**5.06p**	**5.03p**

14. Dividends per share

Dividends of £6,122,000 were paid in the year to 29 February 2020 (2019: £5,657,000), 1.65p per share (2019: 1.50p). In light of the immediate and significant impact of the Government's response to COVID-19 on the Group, the Board does not propose a final dividend in respect of the year ended 29 February 2020.

15. Goodwill and other indefinite life assets

2020	Goodwill £'000	Franchise relationships £'000	Total £'000
Cost			
At 1 March 2019	85,982	26,410	112,392
Acquisitions (note 17)	1,114	677	1,791
At 29 February 2020	**87,096**	**27,087**	**114,183**
Accumulated impairment charges			
At 1 March 2019	114	-	114
Impairment charge	14,754	-	14,754
At 29 February 2020	**14,868**	**-**	**14,868**
Net Book Value			
At 29 February 2020	**72,228**	**27,087**	**99,315**
At 28 February 2019	**85,868**	**26,410**	**112,278**

15. Goodwill and other indefinite life assets (continued)

2019	Goodwill £'000	Franchise relationships £'000	Total £'000
Cost			
At 1 March 2018	74,303	20,192	94,495
Acquisitions	11,679	6,218	17,897
At 28 February 2019	**85,982**	**26,410**	**112,392**
Accumulated impairment charges			
At 1 March 2018 and at 28 February 2019	**(114)**	**-**	**(114)**
Net Book Value			
At 28 February 2019	**85,868**	**26,410**	**112,278**
At 28 February 2018	**74,189**	**20,192**	**94,381**

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 29 February 2020 and 28 February 2019, the acquired goodwill and other indefinite life assets were tested for impairment.

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.

A summary of the goodwill purchased is presented below:

	2020 £'000	2019 £'000
Bristol Street Group Limited	13,860	13,860
Albert Farnell Limited	13,279	13,279
Hillendale Group Limited	5,159	5,159
SHG Holdings Limited	7,842	7,842
Bury Land Rover	4,415	4,415
Sigma Holdings Limited and Hughes Group Limited	5,874	16,585
Gordon Lamb Group Limited	5,754	5,754
Vans Direct Limited	4,475	6,973
Leeds, Huddersfield, Harrogate and Skipton Volkswagen	1,114	-
Other acquisitions	10,456	12,001
	72,228	**85,868**

A summary of franchise relationships acquired is presented below:

	2020 £'000	2019 £'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 and Hughes Group Limited	9,989	9,989
Gordon Lamb Group Limited	3,207	3,207
Leeds, Huddersfield, Harrogate and Skipton Volkswagen	677	-
	27,087	**26,410**

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

15. Goodwill and other indefinite life assets (continued)

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

Impairment testing in the year ended 29 February 2020 included a cautious assessment of the cash flow impact of a substantial curtailment of operations in response to the global COVID-19 pandemic. Calculations included an assumed three-month full closure of dealership sales operations in the year to February 2021, followed by a further period of steady recovery to historic levels of performance for each CGU starting February 2022.

Annual growth rates typically between 0% and 3% are assumed for years three to five depending on the CGU, after which a growth rate of 0% is assumed to perpetuity. Cash flows into perpetuity have been used to reflect the long-term and open-ended nature of the Group's business model.

A risk adjusted pre-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 8% (2019: 8%) is applied.

As a result of this value in use calculation taking into account the impact of COVID-19 on post year end trading performance and cash flows, impairment charges of £14,754,000 were incurred during the year ended 29 February 2020 (2019: £Nil) to align the carrying value with the value in use.

In addition to the calculations outlined above, the Group also performed a review of deferred consideration due under earn out arrangements in respect of acquisitions from previous financial years. As a result of the financial performance of Vans Direct Limited against the relevant earn out criteria during the year ended 29 February 2020, the value of the liability in respect of deferred consideration for the earn out on this acquisition was reassessed at 29 February 2020 as £Nil, with the change in fair value being recognised in profit or loss in accordance with IFRS 9.

Sensitivity analysis has been performed on the impairment test based on three potential scenarios with the following results:

- If the impact of COVID-19 resulted in a reduction in gross profit which is 20% higher than that included in the forecast, the Group would incur an additional impairment charge in respect of goodwill and other indefinite life assets of £1.9m.
- If the growth rate in years three to five reduces to -3%, the Group would incur an additional impairment charge in respect of goodwill and other indefinite life assets of £8.4m.
- If the pre-tax WACC increased to 9%, the Group would incur an additional impairment charge in respect of goodwill and other indefinite life assets of £9.9m.

16. Other intangible assets

2020	Software costs £'000	Brand £'000	Customer relationships £'000	Total £'000
Cost				
At 1 March 2019	2,270	541	1,985	4,796
Additions	116	-	-	116
At 29 February 2020	**2,386**	**541**	**1,985**	**4,912**
Accumulated amortisation				
At 1 March 2019	1,599	-	598	2,197
Charge for the year	356	54	185	595
At 29 February 2020	**1,955**	**54**	**783**	**2,792**
Net book value at 29 February 2020	**431**	**487**	**1,202**	**2,120**
Net book value at 28 February 2019	**671**	**541**	**1,387**	**2,599**

2019	Earn out £'000	Software costs £'000	Brand £'000	Customer relationships £'000	Total £'000
Cost					
At 1 March 2018	400	2,116	-	855	3,371
Acquisitions	-	5	541	1,130	1,676
Additions	-	150	-	-	150
Disposals	(400)	(1)	-	-	(401)
At 28 February 2019	**-**	**2,270**	**541**	**1,985**	**4,796**
Accumulated amortisation					
At 1 March 2018	400	1,147	-	508	2,055
Charge for the year	-	453	-	90	543
Disposals	(400)	(1)	-	-	(401)
At 28 February 2019	**-**	**1,599**	**-**	**598**	**2,197**
Net book value at 28 February 2019	**-**	**671**	**541**	**1,387**	**2,599**
Net book value at 28 February 2018	**-**	**969**	**-**	**347**	**1,316**

The earn out disposed of in the year to 28 February 2019 relates to an acquisition in a previous accounting period for which the earn out period is now complete.

17. Business combinations

a) Acquisition of Harrogate, Leeds, Skipton and Huddersfield Volkswagen

On 16 January 2020, the Group acquired the trade and assets of four Volkswagen dealerships in Yorkshire from Goodman Retail Limited. The consideration payable on completion amounted to £6,921,000 and was initially settled from the Group's existing cash resources, this was drawn down from the Group's Revolving Credit Facility subsequent to the year end.

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

	Fair Value £'000
Intangible assets	677
Property, plant and equipment	1,608
Right-of-use asset	9,491
Inventories	5,700
Trade and other receivables	286
Trade and other payables	(2,062)
Lease liabilities	(9,491)
Deferred tax	(115)
Provision	(287)
Net assets acquired	**5,807**
Goodwill	1,114
Consideration	**6,921**

17. Business combinations (continued)

a) Acquisition of Harrogate, Leeds, Skipton and Huddersfield Volkswagen (continued)

Acquisition related costs (included in the consolidated income statement for the year ended 29 February 2020) totalled £147,000 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.

b) Acquisition of Bradford Honda and Kia

On 28 February 2020, the Group acquired the trade and assets of a multi franchise dealership in Bradford consisting of Honda and Kia from Vantage Motor Group Limited. The consideration payable on completion amounted to £3,906,000 and was initially settled from the Group's existing cash resources. Subsequent to the year end this was drawn down from the Group's Revolving Credit Facility.

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

	Fair Value £'000
Property, plant and equipment	3,071
Inventories	863
Trade and other payables	(28)
Net assets acquired	**3,906**
Goodwill	-
Consideration	**3,906**

Acquisition related costs (included in the consolidated income statement for the year ended 29 February 2020) totalled £29,000 in respect of this acquisition.

c) Other acquisitions

On 20 January 2020, the Group acquired the trade and assets of Leven Cars Group Limited in respect of its Kia, Suzuki and Mitsubishi Edinburgh franchises from administration. The consideration payable on completion amounted to £25,000 and was settled from the Group's existing cash resources.

On 28 February 2020, the Group acquired the trade and assets of a Peugeot dealership from Robins and Day. There was a receivable due on completion of £1,000. On 1 March 2020, the Group commenced operation of the Peugeot franchise in Derby from newly refurbished existing Group premises.

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

	Fair Value £'000
Property, plant and equipment	27
Trade and other payables	(3)
Net assets acquired	**24**
Goodwill	-
Consideration	**24**

Acquisition related costs (included in the consolidated income statement for the year ended 29 February 2020) totalled £23,000 in respect of these acquisitions.

17. Business combinations (continued)

Summary of acquisitions' cash consideration

	Cash Consideration £'000	(Cash)/ Borrowings Acquired £'000	Total £'000
Yorkshire Volkswagen	6,921	-	6,921
Bradford Honda and Kia	3,906	-	3,906
Other acquisitions	24	-	24
	10,851	**-**	**10,851**
Hughes Group Limited – payment of deferred consideration			1,500
Vans Direct Limited – measurement period adjustments			47
Cash outflow on acquisition of businesses			**12,398**

Deferred consideration of £1,500,000 was paid during the year in respect of the acquisition of Hughes Group Limited which became due 12 months after the acquisition date. A further £47,000 cash outflow arose as a result of adjustments to the net assets on acquisition of Vans Direct Limited identified within the measurement period subsequent to acquisition.

Deferred consideration

Deferred consideration outstanding at 29 February 2020:

	2020 £'000	2019 £'000
Vans Direct Limited	-	2,500
Hughes Group Limited	-	1,500
Other businesses*	-	100
Total deferred consideration	**-**	**4,100**

Maturity of deferred consideration:

	2020 £'000	2019 £'000
Payable in less than 12 months	-	1,500
Payable in greater than 12 months	-	2,600
Total deferred consideration	**-**	**4,100**

Deferred consideration in relation to Vans Direct Limited was released during the year due to a reassessment of the likelihood of the business achieving the relevant performance criteria in the earn out period.

*Deferred consideration in respect of "other businesses" relates to earn out arrangements on the acquisitions of ancillary businesses payable in future periods. The value of this liability was reassessed at each period end based on what is expected to be due in future periods under these arrangements. The period of assessment expired in February 2020 and there is no longer a liability due.

17. Business combinations (continued)

Summary of the fair value of net assets acquired

	Yorkshire Volkswagen £'000	Bradford Honda and Kia £'000	Other acquisitions £'000	Total £'000
Intangible assets	677	-	-	677
Property, plant and equipment	1,608	3,071	27	4,706
Right-of-use asset	9,491	-	-	9,491
Inventories	5,700	863	-	6,563
Trade and other receivables	286	-	-	286
Cash and cash equivalents	-	-	-	-
Trade and other payables	(2,062)	(28)	(3)	(2,093)
Lease liabilities	(9,491)	-	-	(9,491)
Provisions	(287)	-	-	(287)
Corporation tax	-	-	-	-
Deferred tax	(115)	-	-	(115)
Net assets acquired	**5,807**	**3,906**	**24**	**9,737**

18. Property, plant and equipment

2020	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 2019	232,202	5,378	10,436	16,498	264,514
Acquisitions (note 17)	3,945	-	514	247	4,706
Additions	9,084	84	2,351	3,658	15,177
Disposals	(1,712)	(23)	(713)	(721)	(3,169)
Reclassifications	76	(76)	(51)	51	-
Transfers to assets held for sale	(495)	-	-	-	(495)
At 29 February 2020	**243,100**	**5,363**	**12,537**	**19,733**	**280,733**
Accumulated depreciation and impairment					
At 1 March 2019	24,457	2,667	4,905	7,667	39,696
Depreciation charge	5,012	641	1,988	3,668	11,309
Disposals	(228)	(2)	(565)	(671)	(1,466)
Reclassifications	63	(63)	(15)	15	-
Impairment	2,124	-	-	-	2,124
Transfer to assets held for sale	(78)	-	-	-	(78)
At 29 February 2020	**31,350**	**3,243**	**6,313**	**10,679**	**51,585**
Net Book Value					
At 29 February 2020	**211,750**	**2,120**	**6,224**	**9,054**	**229,148**
At 28 February 2019	**207,745**	**2,711**	**5,531**	**8,831**	**224,818**

* Includes leasehold improvements and franchise standards property improvements.

Depreciation expense of £11,309,000 has been charged in operating expenses (note 6).

The £2,124,000 impairment charge in the period relates to two of the Group's freehold properties in Newcastle and Sheffield and has been included in non-underlying items (note 8).

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 (2019: £10,900,000) have been granted to manufacturer partners as security against consignment stocking lines.

18. Property, plant and equipment (continued)

2019	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 2018	200,728	5,421	8,460	15,206	229,815
Acquisitions	6,264	-	114	682	7,060
Additions	26,853	23	2,552	3,367	32,795
Disposals	(1,612)	(66)	(815)	(1,913)	(4,406)
Reclassifications	719	-	125	(844)	-
Transfer to assets held for sale	(750)	-	-	-	(750)
At 28 February 2019	**232,202**	**5,378**	**10,436**	**16,498**	**264,514**
Accumulated depreciation					
At 1 March 2018	19,339	1,941	3,921	6,610	31,811
Depreciation charge	4,814	776	1,757	3,375	10,722
Disposals	(181)	(50)	(792)	(1,814)	(2,837)
Reclassifications	485	-	19	(504)	-
At 28 February 2019	**24,457**	**2,667**	**4,905**	**7,667**	**39,696**
Net Book Value					
At 28 February 2019	**207,745**	**2,711**	**5,531**	**8,831**	**224,818**
At 28 February 2018	**181,389**	**3,480**	**4,539**	**8,596**	**198,004**

19. Leases

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Right-of-use assets	2020 £'000	1 March 2019* £'000
Property	80,801	73,865
Vehicles	6,212	4,888
	87,013	**78,753**
Lease liabilities		
Current	(14,071)	(15,286)
Non-current	(82,823)	(72,675)
	(96,894)	**(87,961)**

*In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 March 2019, please refer to note 1.

Additions to the right-of-use assets during the 2020 financial year were £22,325,000.

Amounts recognised in the statements of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

Depreciation charge of right-of-use assets	2020 £'000	2019 £'000
Property	8,704	-
Vehicles	5,361	-
	14,065	**-**
Interest expense (included in finance cost)	3,595	-

The total cash outflow in respect of lease payments in the year ended 29 February 2020 was £16,987,000.

20. Subsidiary undertakings

A list of subsidiary undertakings (ordinary shares 100% owned and incorporated within the United Kingdom), as at 29 February 2020 and 28 February 2019 is given in note 7 of the Vertu Motors plc company only financial statements (pages 133 to 135).

21. Inventories

	2020 £'000	2019 £'000
New vehicle stock	475,427	470,288
Used vehicle stock	121,252	105,710
Demonstrator and courtesy vehicles	29,457	29,727
Parts and sundry stocks	13,041	12,950
	639,177	**618,675**

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

	2020 £'000	2019 £'000
Interest bearing consignment stock	51,849	46,401
Stock invoiced not yet paid held by Manufacturers to the order of the Group	366,513	378,954
Other new vehicle stock	57,065	44,933
	475,427	**470,288**

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 £2,815,187,000 (2019: £2,745,070,000).

22. Property assets held for resale

	2020 £'000	2019 £'000
At beginning of year	1,324	2,449
Transfers in from freehold property	417	750
Property sold during the year	(1,324)	(1,875)
At end of year	**417**	**1,324**

Properties sold during the year relates to a dealership property in High Wycombe which was sold on 29 March 2019 realising cash proceeds equal to net book value and fair value of £750,000 and an empty dealership property in Barnsley. The property was sold on 26 March 2019 realising cash proceeds of £624,000 and a profit on disposal of £50,000.

The transfer in from freehold property during the year ended 29 February 2020 relates to a dealership property in Retford.

23. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	52,136	36,219
Less provision for impairment of trade receivables	(1,557)	(1,272)
Trade receivables (net)	**50,579**	**34,947**
Other receivables	10,197	19,459
Prepayments and accrued income	10,944	8,487
	71,720	**62,893**

The Group measures the loss allowance for trade receivables at an amount equal to the lifetime expected credit losses ("ECL"). The ECL on trade receivables are measured using a provision matrix by reference to past default experience, current financial position of the debtors and any known specific factors.

There has been no change in significant assumptions or the method of estimation of ECL during the current financial year.

23. Trade and other receivables (continued)

The following table shows the profile of the Group's trade receivables.

	Current £'000	31-60 £'000	61-90 £'000	>90 £'000	Trade Receivables £'000	Loss Allowance £'000	Trade Receivables (net) £'000
2020	42,889	5,878	741	2,628	52,136	(1,557)	50,579
2019	29,314	4,334	1,123	1,448	36,219	(1,272)	34,947

As at 29 February 2020, trade receivables of £4,108,000 (2019: £836,000) were past due but not impaired. The ageing of these receivables are all within 3 months overdue.

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

	2020 £'000	2019 £'000
At beginning of year	1,272	1,224
Charge for receivables impairment	505	421
Receivables written off during the year as uncollectible	11	(16)
Unused amounts reversed	(231)	(357)
At end of year	**1,557**	**1,272**

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 loss 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.

24. Cash and cash equivalents

	2020 £'000	2019 £'000
Cash in bank and in hand	40,839	66,519

25. Trade and other payables

	2020 £'000	2019 £'000
Current		
Trade payables	632,911	639,577
Social security and other taxes	6,667	5,937
Accruals	50,692	45,750
Other payables	26,000	26,000
	716,270	**717,264**

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 £12,767,000 (2019: £11,971,000) in respect of outstanding service plans.

26. Borrowings

	2020 £'000	2019 £'000
Current		
Other borrowings	25,547	23,166
	25,547	23,166
Non-current		
Bank borrowings	43,657	43,600
	43,657	43,600
	69,204	**66,766**

Borrowings are repayable as follows:

	2020 £'000	2019 £'000
6 months or less	25,547	23,166
6-12 months	-	-
1-5 years	43,657	43,600
	69,204	**66,766**

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

a) Bank borrowings

The Group's Revolving Credit Facility ("RCF") was available throughout the year ended 29 February 2020 and is in place until 27 February 2024. At 1 March 2019 the Group had a committed RCF available of £62,000,000, as well as having access to an additional £15,000,000 uncommitted "accordion" facility. This facility bears an interest rate of between 1.3% and 2.1% above LIBOR depending on the value of the Group's net debt to EBITDA ratio. Interest was paid on the debt drawn under this facility at the rate of 1.3% above LIBOR throughout the year to 29 February 2020. £44,100,000 of the RCF was drawn at 29 February 2020.

On 17 March 2021, subsequent to the year end, the Group drew down a further £10,000,000 of the RCF facility to aid liquidity driven by the uncertainty surrounding the Global COVID-19 pandemic. The Group's banks agreed to a waiver of financial covenants for the May 2020 and August 2020 measurement periods. In consideration for this interest rates at 2.1% above LIBOR will be applied to drawings under the RCF facility from 1 June 2020.

On 31 July 2017, the Group entered into a three year interest rate swap in respect of the first £10,000,000 of the RCF facility, swapping LIBOR for a fixed interest rate of 0.675%. On 6 August 2018, the Group entered into a five year interest rate swap in respect of a further £7,000,000 of this facility, swapping LIBOR for a fixed interest rate of 1.424%. On 31 July 2019, the Group entered into a further interest rate swap in respect of £5,000,000 of the Group's borrowings, swapping LIBOR for a fixed interest rate of 1.214% which increased the value of hedged borrowings to £22,000,000 overall.

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.

The overdraft and CMML facilities were renewed for a further 12 months on 6 May 2020. During the year ended 29 February 2020 the facilities applicable during peak months was £68,000,000. The applicable interest rates on the working capital facilities, namely the CMML and overdraft, were unchanged. On 6 May 2020, the terms of the CMML facility were amended such that the 4 peak months of the year were extended to include August and September, as well as April, July, October and January, to aid cash flow requirements as a consequence of the global COVID-19 pandemic. Interest rates applicable to these facilities have been increased to 1.75% above LIBOR from 1 June 2020.

26. Borrowings (continued)

a) Bank borrowings (continued)

The Group had the following undrawn borrowing and overdraft facilities at 29 February 2020:

	2020 £'000	2019 £'000
Floating rate		
- Overdraft (uncommitted) expiring in one year	5,000	5,000
- CMML (committed) facility expiring in one year	68,000	68,000
- RCF facility expiring in greater than one year *	17,900	17,900
- Other borrowings	9,453	11,834
	100,353	**102,734**

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

b) Other borrowings

Other borrowings represent amounts repayable under used car stocking facilities. These loans are subject to interest at 1.5% above LIBOR and are secured against the related vehicles.

At 29 February 2020 the facility available to the Group was £35,000,000 (2019: £35,000,000). Subsequent to the year end, on 30 April 2020 the available facilities were increased to £45,000,000.

c) Financial assets

The Group's financial assets on which floating interest is receivable comprise cash deposits and cash in hand of £40,839,000 (2019: £66,519,000). The cash deposits comprise deposits placed on money market at call, seven day and cash deposited with counterparty banks at commercially negotiated interest rates.

The IFRS 9 classification for trade and other receivables and cash and cash equivalents is amortised cost. Their fair value is deemed to be equal to their carrying value.

27. Derivative financial instruments

Interest rate swap contracts

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

	2020 £'000	2019 £'000
£10m Interest rate swap – cash flow hedges	(1)	44
£7m Interest rate swap – cash flow hedges	(198)	(69)
£5m Interest rate swap – cash flow hedges	(294)	-
Total derivates designated as hedging instruments	**(493)**	**(25)**

	2020 £'000	2019 £'000
Non-current borrowings subject to hedging instruments	22,000	17,000
Total derivative financial liabilities	**22,000**	**17,000**

The Group manages its cash-flow interest rate risk by using floating-to-fixed interest rate swaps. Normally the Group raises long-term borrowings at floating rates and swaps them into fixed rates.

The notional principal amounts of outstanding floating to fixed interest rate swap contracts designated as hedging instruments in cash flow interest rate hedges of variable rate debt at 29 February 2020 totalled £22,000,000 (2019: £17,000,000). Their combined fair value was a liability of £493,000 (2019: £25,000).

At 29 February 2020, the main floating rate was LIBOR. Gains and losses recognised in the cash flow hedging reserve in equity on interest rate swap contracts as at 29 February 2020 will be released to the consolidated statement of comprehensive income as the related interest expense is recognised.

28. 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:

	2020 £'000	2019 £'000
Deferred tax asset to be recovered after more than 12 months	(2,152)	(1,882)
Deferred tax liabilities to be recovered after more than 12 months	10,331	9,476
Deferred tax liabilities (net)	**8,179**	**7,594**

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

2020	**Deferred tax liabilities £'000**	**Deferred tax assets £'000**	**Net £'000**
At 1 March 2019	9,476	(1,882)	7,594
Charged/(credited) to income statement (note 12)	332	(190)	142
Charged/(credited) directly to equity	408	(80)	328
Acquisitions	115	-	115
At 29 February 2020	**10,331**	**(2,152)**	**8,179**

2019	**Deferred tax liabilities £'000**	**Deferred tax assets £'000**	**Net £'000**
At 1 March 2018	8,214	(1,737)	6,477
Credited to income statement (note 12)	(4)	(156)	(160)
(Credited)/charged directly to equity	(46)	11	(35)
Acquisitions (note 17)	1,312	-	1,312
At 28 February 2019	**9,476**	**(1,882)**	**7,594**

2020	**Accelerated tax depreciation £'000**	**Share based payments £'000**	**Pensions £'000**	**Other timing differences £'000**	**Total £'000**
At 1 March 2019	1,977	(735)	1,093	5,259	7,594
Charged/(credited) to income statement (note 12)	400	(72)	6	(192)	142
Acquisitions	-	-	-	115	115
Charged/(credited) directly to equity	-	-	408	(80)	328
At 29 February 2020	**2,377**	**(807)**	**1,507**	**5,102**	**8,179**

2019	**Accelerated tax depreciation £'000**	**Share based payments £'000**	**Pensions £'000**	**Other timing differences £'000**	**Total £'000**
At 1 March 2018	1,926	(642)	1,114	4,079	6,477
(Credited)/charged to income statement (note 12)	(204)	(93)	25	112	(160)
Acquisitions	255	-	-	1,057	1,312
(Credited)/charged directly to equity	-	-	(46)	11	(35)
At 28 February 2019	**1,977**	**(735)**	**1,093**	**5,259**	**7,594**

In March 2020 it was announced that the reduction in the UK rate to 17% will now not occur and the Corporation Tax Rate will be held at 19%. As the substantive enactment was after the balance sheet date the deferred tax balances as at 29 February 2020 have continued to be measured at a rate of 17%.

29. Contract liabilities

	Warranty policies £'000	Free servicing £'000	Total £'000
At 1 March 2019	17,821	1,592	19,413
Created in the year	9,481	810	10,291
Recognised as income during the year	(8,093)	(343)	(8,436)
At 29 February 2020	**19,209**	**2,059**	**21,268**
Current	8,915	2,059	10,974
Non-current	10,294	-	10,294
	19,209	**2,059**	**21,268**

Warranty policies

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 a contract liability at the fair value allocated to the warranty product at the point of sale and is released to the income statement on a straight-line basis over the life of each warranty policy.

Free servicing

The Group recognises a contract liability in respect of a "free servicing" arrangement whereby the first or subsequent service of a vehicle post sale is provided free of charge to a customer, as part of the initial consideration for the vehicle sale. An element of the initial consideration which is estimated to relate to the service is recognised as a contract liability and is released to the income statement when the service has been undertaken.

30. Retirement benefit asset

The Group operates a trust based defined benefit pension scheme, "Bristol Street Pension Scheme", which has three defined benefit sections which were closed to new entrants and future accrual on 31 May 2003, with another section closed to new entrants in July 2003 and future accrual in October 2013. 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.

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

Regular employer contributions to the scheme (including contributions paid in respect of scheme expenses) for the year commencing 1 March 2020 are estimated to be £Nil.

The last actuarial valuation upon which the IAS 19 (Revised) figures and disclosures have been based was as at 5 April 2018. 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 are:

	Market Value 29 February 2020 £'000	Market Value 28 February 2019 £'000
Equities	-	6,780
Diversified growth funds	12,742	12,077
Liability driven Investment Funds	43,483	33,137
Other	2,972	413
	59,197	**52,407**

30. Retirement benefit asset (continued)

None of the assets listed above have a quoted market price in an active market as they are pooled investment funds specifically designed for occupational pension schemes. A value is placed on the Scheme's unit holdings in the funds by the funds' investment managers / custodians.

The Liability Driven Investments ("LDI") that the Scheme is invested in is an investment tool used to reduce the investment risk and therefore volatility in the Scheme's funding position. Changes in interest rates and inflation rates will result in these assets moving in the same way as the liabilities. The LDI portfolio is primarily formed of derivatives, such as swaps, which are leveraged meaning that less LDI assets have to be held to match the same movement in the Scheme's liabilities.

The expected return on the assets as at 28 February 2019 was 2.65%. This is equal to the discount rate used in the calculation of the net interest income for the year ended 29 February 2020.

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:

	2020 £'000	2019 £'000
Fair value of scheme assets	59,197	52,407
Present value of funded obligations	(50,330)	(45,977)
Asset on the balance sheet	**8,867**	**6,430**

A surplus may be recognised if the economic benefits are available in the form of a refund or reduction in future contributions. Clause 5.6.2 of the Scheme Rules enables the Scheme to refund surplus assets to the employer. Surpluses are therefore recognised in full.

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

	2020 £'000	2019 £'000
Opening fair value of scheme assets	52,407	53,678
Interest income	1,367	1,416
Actuarial gains/(losses)	7,047	(196)
Employer contributions	-	63
Benefits paid	(1,493)	(2,462)
Expenses recognised in the income statement	(131)	(92)
Closing fair value of scheme assets	**59,197**	**52,407**

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

	2020 £'000	2019 £'000
Opening fair value of scheme liabilities	45,977	47,127
Interest cost	1,199	1,239
Actuarial losses	4,647	73
Benefits paid	(1,493)	(2,462)
Closing fair value of scheme liabilities	**50,330**	**45,977**

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

	2020 £'000	2019 £'000
Expenses	131	92
Net interest income (note 11)	(168)	(177)
Total income included in income statement	**(37)**	**(85)**

30. Retirement benefit asset (continued)

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

	2020 £'000	2019 £'000
Expected return on scheme assets	1,367	1,416
Actuarial gains/(losses)	7,047	(196)
	8,414	**1,220**

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

	2020	2019
Discount rate	1.70%	2.65%
Limited Price Indexation ("LPI") pension increases before 2030	2.90%	3.20%
Limited Price Indexation ("LPI") pension increases after 2030	2.40%	3.20%
Inflation rate	1.90%	2.20%

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:

	2020	2019
Male	22	22
Female	24	23

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

	2020	2019
Male	23	23
Female	25	25

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

	2020 £'000	2019 £'000
Actuarial gains/(losses)	2,400	(269)
Related deferred tax liability (note 28)	(408)	46
Total, included within retained earnings	**1,992**	**(223)**
Cumulative actuarial gains/(losses)	**540**	**(1,452)**

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	1,954
0.25% decrease in discount rate	(2,071)
0.25% increase in price inflation (and associated assumptions)	(1,783)
0.25% decrease in price inflation (and associated assumptions)	1,276
1 year increase in life expectancy at age 65	(2,065)
1 year decrease in life expectancy at age 65	2,024

31. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve

2020	Ordinary shares of 10p each Number of shares ('000)	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Total £'000
At 1 March 2019	375,023	37,661	124,939	10,645	(602)	2,066	174,709
Issuance of treasury shares in satisfaction of exercised share options	529	-	-	-	200	-	200
Cancellation of repurchased shares	(7,432)	(744)	-	-	-	744	-
Purchase of treasury shares	(1,000)	-	-	-	(401)	-	(401)
At 29 February 2020	**367,120**	**36,917**	**124,939**	**10,645**	**(803)**	**2,810**	**174,508**

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

2019	Ordinary shares of 10p each Number of shares ('000)	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Total £'000
At 1 March 2018	383,709	38,552	124,934	10,645	(690)	1,175	174,616
Issuance of treasury shares in satisfaction of exercised share options	233	-	5	-	88	-	93
Cancellation of repurchased shares	(8,919)	(891)	-	-	-	891	-
At 28 February 2019	**375,023**	**37,661**	**124,939**	**10,645**	**(602)**	**2,066**	**174,709**

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 and is £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 note 8, a share based payments charge of £733,000 (2019: £904,000) has been recognised during the year, in relation to the schemes as described below.

31. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (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 29 February 2020 No of shares	Granted / Outstanding at 28 February 2019 No of shares	Exercise price	Date from which exercisable	Expiry date
28 Nov 2011*	CSOP	569,230	589,230	26.00p	28 Nov 2014	28 Nov 2021
12 Jun 2012*	CSOP	2,000,000	2,400,000	27.50p	30 Aug 2015	12 Jun 2022
24 Oct 2012*	CSOP	2,010,000	2,050,000	39.25p	30 Aug 2015	24 Oct 2022
20 Aug 2013*	LTIP	53,583	53,583	0.00p	20 Aug 2016	20 Aug 2023
13 Nov 2015	CSOP	-	1,785,000	74.50p	16 Nov 2018	16 Nov 2025
5 Sep 2016**	LTIP	121,011	1,811,594	0.00p	5 Sep 2019	5 Sep 2026
13 Oct 2016	CSOP	1,880,000	2,080,000	45.38p	13 Oct 2018	13 Oct 2026
23 Jun 2017****	LTIP	1,893,940	1,893,940	0.00p	23 Jun 2020	23 Jun 2027
6 Nov 2017	CSOP	2,640,000	2,915,000	45.00p	7 Nov 2020	7 Nov 2027
2 Jul 2018	CSOP	3,600,000	3,600,000	49.60p	2 Jul 2021	2 Jul 2028
17 Jul 2018	LTIP	458,864	458,864	0.00p	17 Jul 2021	17 Jul 2028
8 Nov 2018	CSOP	5,170,000	5,450,000	38.00p	8 Nov 2021	8 Nov 2028
3 Sept 2019***	LTIP	1,168,417	-	0.00p	3 Sep 2022	3 Sep 2029
		21,565,045	**25,087,211**			

* Vested
**37% of these awards vested subsequent to 28 February 2019. The remaining 63% lapsed as a result of not satisfying the relevant performance criteria.
***Cancelled post year end
****Lapsed in full subsequent to 29 February 2020 as a result of not satisfying the relevant performance criteria.

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

	2020 No of share options	2019 No of share options
At beginning of year	25,087,211	19,257,265
Granted	1,168,417	9,608,864
Forfeited	(940,000)	(1,287,930)
Lapsed	(2,811,618)	(2,258,205)
Exercised	(938,965)	(232,783)
At end of year	**21,565,045**	**25,087,211**

The weighted average share price during the year was 36.3p (2019: 43.0p). The weighted average fair value of CSOP options granted during the year, determined using the Black-Scholes model was Nil (2019: 6p) per option.

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

	CSOP		LTIP		Total
	Options No of shares	Weighted average exercise price	Options No of shares	Weighted average exercise price	Options No of shares
At beginning of 1 March 2018	14,094,029	45.68p	5,163,236	0.00p	19,257,265
Granted	9,150,000	43.00p	458,864	0.00p	9,608,864
Forfeited	(1,065,600)	51.76p	(222,330)	0.00p	(1,287,930)
Exercised	(179,200)	36.17p	(53,583)	0.00p	(232,783)
Lapsed	(1,130,000)	57.50p	(1,128,205)	0.00p	(2,258,205)
At 28 February 2019	20,869,229	43.64p	4,217,982	0.00p	25,087,211
Granted	-	0.00p	1,168,417	0.00p	1,168,417
Forfeited	(940,000)	49.60p	-	0.00p	(940,000)
Exercised	(410,000)	27.50p	(528,965)	0.00p	(938,965)
Lapsed	(1,650,000)	74.50p	(1,161,618)	0.00p	(2,811,618)
At 29 February 2020	**17,869,229**	**40.85p**	**3,695,816**	**0.00p**	**21,565,045**

31. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (continued)

Share Option Schemes (continued)

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

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

The weighted average fair value of LTIP options granted during the year, determined using the Black-Scholes model was 29.7p (2019: 46.0p) 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	20%
Option life	7 years
Expected life	3 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 120.

The CSOP options issued on 13 November 2015 could 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 was above 90p and then 100% of the options vest. At an average share price of below 90p none of the options are exercisable, these options therefore lapsed during the year.

The CSOP options issued on 13 October 2016 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.

31. Ordinary share capital, share premium, other reserves, treasury share reserve and capital redemption reserve (continued)

The CSOP options issued on 6 November 2017 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2020 and 31 July 2021 is above 62.5p and then 100% of the options vest. At an average share price of 57.5p 50% of the options are exercisable. At prices between 57.5p and 62.5p, options will vest on a straight-line basis between 50% and 100%. At a share price below 57.5p none of the options are exercisable.

The CSOP options issued on 2 July 2018 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 62.5p and then 100% of the options vest. At an average share price of 57.5p 50% of the options are exercisable. At prices between 57.5p and 62.5p, options will vest on a straight-line basis between 50% and 100%. At a share price below 57.5p none of the options are exercisable.

The CSOP options issued on 8 November 2018 may only be exercised if the average share price of the Company over at least one continuous period of 30 days between 1 August 2021 and 31 July 2022 is above 50.9p and then 100% of the options vest. At an average share price of 44.6p 50% of the options are exercisable. At prices between 44.6p and 50.9p, options will vest on a straight-line basis between 50% and 100%. At a share price below 44.6p none of the options are exercisable.

There were no CSOP share options issued during the financial year to 29 February 2020.

c) Long Term Incentive Plan ("LTIP")

Vesting of LTIP awards issued subsequent to June 2015 is subject to targets based on the achievement of absolute growth in the Company's total shareholder return ("TSR") and the Group's target return on shareholders' equity. The vesting of 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.

On 5 September 2016 LTIP share awards were made to Executive Directors and Senior Managers. 37% of these awards vested during the year ended 29 February 2020, the remaining 63% of the awards lapsed as a result of not satisfying the relevant performance conditions. The vested awards are subject to a two year holding period. On 23 June 2017, 2,007,576 LTIP share awards were made to Executive Directors and Senior Managers. These awards lapsed in full subsequent to 20 February 2020 as a result of not satisfying the relevant performance conditions. On 17 July 2018, 458,864 LTIP share awards were made to Executive Directors which may vest in May 2021. On 3 September 2019, 1,168,417 LTIP share awards were made to Executive Directors which were cancelled in full post year end, in agreement between the Executive Directors and the Remuneration Committee.

32. 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:

	2020 £'000	2019 £'000
At beginning of year	(19)	(75)
Fair value (losses) / gains on derivative financial instruments during the year	(468)	67
Deferred taxation on fair value losses / (gains) during year	80	(11)
At end of year	**(407)**	**(19)**

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

	2020 £'000	2019 £'000
Net (decrease) / increase in cash and cash equivalents	(25,680)	24,810
Cash inflow from proceeds of borrowings	(2,381)	(44,455)
Cash movement in net cash	**(28,061)**	**(19,645)**
Capitalisation of loan arrangement fees	118	214
Amortisation of loan arrangement fees	(175)	(129)
Non-cash movement in net cash	**(57)**	**85**
Movement in net (debt) / cash	**(28,118)**	**(19,560)**
Opening net (debt) / cash	**(247)**	**19,313**
Closing net debt (excluding lease liabilities)	**(28,365)**	**(247)**
Lease liabilities transitional adjustment (Note 1)	(87,961)	-
Capitalisation of new leases (Note 19)	(22,325)	-
Interest element of new leases (Note 11)	(3,595)	-
Cash outflow from lease repayments (Note 19)	16,987	-
Impact of IFRS 16 transition	**(96,894)**	**-**
Closing net debt	**(125,259)**	**(247)**

34. 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.

2020

	Inventories (Note 21) £'000	Current trade and other receivables (Note 23) £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables (Note 25)			(716,270)	
Contract liabilities (Note 29)			(21,268)	
At 29 February 2020	639,177	71,720	(737,538)	
At 28 February 2019	618,675	62,893	(740,777)	
Balance sheet movement	**(20,502)**	**(8,827)**	**(3,239)**	
Acquisitions (Note 17)	6,563	286	(2,380)	
Deferred consideration on acquisitions (Note 17)	-	-	4,100	
Movement excluding business combinations	**(13,939)**	**(8,541)**	**(1,519)**	**(23,999)**
Pension related balances				131
Decrease in capital creditors				422
Increase in interest accrual				(117)
Movement as shown in Consolidated Cash Flow Statement				**(23,563)**

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

2019

	Inventories (Note 21) £'000	Current trade and other receivables (Note 23) £'000	Trade and other payables £'000	Total working capital movement £'000
Trade and other payables			(717,264)	
Deferred consideration			(4,100)	
Contract liabilities			(19,413)	
At 28 February 2019	618,675	62,893	(740,777)	
At 28 February 2018	558,386	66,272	(672,381)	
Balance sheet movement	**(60,289)**	**3,379**	**68,396**	
Acquisitions	27,651	8,351	(25,635)	
Deferred consideration on acquisitions	-	-	(4,000)	
Movement excluding business combinations	**(32,638)**	**11,730**	**38,761**	**17,853**
Pension related balances				29
Decrease in capital creditors				894
Increase in interest accrual				(89)
Decrease in share repurchase accrual				174
Movement as shown in Consolidated Cash Flow Statement				**18,861**

35. Reconciliation of movement in liabilities to cash arising from financing activities

	Current borrowings £'000	Non-current borrowings £'000	Share premium £'000	Treasury share reserve £'000	Retained earnings £'000	Total £'000
As at 1 March 2019	23,166	43,600	124,939	(602)	101,953	293,056
Cash flows from financing activities:						
Dividends paid	-	-	-	-	(6,122)	(6,122)
Sale of treasury shares	-	-	-	200	(200)	-
Purchase of treasury shares	-	-	-	(401)	-	(401)
Share repurchase	-	-	-	-	(2,749)	(2,749)
Proceeds from issue of loan	2,381	-	-	-	-	2,381
Lease repayments	(16,987)	-	-	-	-	(16,987)
Net cash outflow from financing activities	(14,606)	-	-	(201)	(9,071)	(23,878)
Other changes:						
Liability related: capitalisation and amortisation of loan fees and expenses	-	57	-	-	-	57
Liability related: capitalisation of lease liabilities and lease interest charges	31,058	82,823	-	-	-	113,881
Equity related: other movements	-	-	-	-	(3,610)	(3,610)
As at 29 February 2020	**39,618**	**126,480**	**124,939**	**(803)**	**89,272**	**379,506**

36. 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 pages 85 to 86 were subject to at the end of 29 February 2020 until they are satisfied in full. These liabilities total £822,279,000 (2019: £790,722,000), offset by intercompany loans of £143,344,000 (2019: £119,094,000). Such guarantees are enforceable against Vertu Motors plc by any person to whom any such liability is due.

37. Commitments

a) Capital Commitments

Capital commitments in respect of property, plant and equipment amounting to £3,127,000 were outstanding as at 29 February 2020 (2019: £3,505,000).

b) Operating Lease Commitments

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

Following the adoption of IFRS 16 all leases have been recognised as right of use assets and corresponding lease liabilities in the current year.

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

	2020		2019	
	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	-	-	10,822	3,858
Later than 1 year and no later than 5 years	-	-	40,572	1,284
Later than 5 years	-	-	47,839	-
	-	**-**	**99,233**	**5,142**

38. 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 29 February 2020 is set out in the Directors' Remuneration Report on pages 65 to 70.

Ken Lever, a Director of the Company, also sits on the board of Biffa plc. A subsidiary company of Biffa plc provides waste disposal services to the Group on normal commercial terms. In the year ended 29 February 2020, the value of such services provided was £425,473 (2019: £51,156). £43,348 was unpaid at 29 February 2020 in respect of these services (2019: £Nil). In the year ended 29 February 2020, sales of £43,674 (2019: £Nil) were made to Biffa plc, of which £1,646 was outstanding at the year end (2019: £Nil).

Ken Lever also sits on the board of RPS Group plc. RPS Group plc provides professional services to the Group on normal commercial terms. In the year ended 29 February 2020, the value of such services provided was £Nil (2019: £1,980). £Nil was unpaid at 29 February 2020 in respect of these services (2019: £Nil).

During the year to 29 February 2020, Robert Forrester, David Crane, Karen Anderson, Peter Jones, Nigel Stead, Andrew Goss and Pauline Best bought and sold vehicles from and to the Group. The value of these transactions for the year ended 29 February 2020 and the year ended 28 February 2019 is presented below. No profit or loss was made in respect of these transactions in the year ended 29 February 2020 or the year ended 28 February 2019. 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 29 February 2020 (2019: £Nil).

38. Related party transactions (continued)

2020

	Bought from the Group		Sold to the Group	
	Number of vehicles	Purchase price £'000	Number of vehicles	Sale price £'000
Robert Forrester	5	402	5	415
David Crane	6	354	6	308
Peter Jones [1]	1	97	2	173
Pauline Best	3	201	2	147
Andrew Goss	2	145	2	119
Karen Anderson [2]	5	284	5	259

2019

	Bought from the Group		Sold to the Group	
	Number of vehicles	Purchase price £'000	Number of vehicles	Sale price £'000
Robert Forrester	5	446	6	513
David Crane	3	203	3	225
Michael Sherwin [3]	5	257	5	293
Peter Jones	2	135	2	147
Nigel Stead [4]	2	166	2	141
Pauline Best	2	145	3	200
Andrew Goss [5]	2	96	1	49

[1] resigned on 24 July 2019
[2] appointed on 1 March 2019
[3] resigned on 1 March 2019
[4] resigned on 31 December 2018
[5] appointed on 3 September 2018

39. Post balance sheet events

As a result of the Government's response to the global COVID-19 pandemic, all of the Group's sales operations were temporarily closed on 24 March 2020. Sales operations reopened in England on 1 June 2020 with Scottish sites (13 in the Group) expected to follow in due course.

The impact of the COVID-19 pandemic on the Group has been treated as an adjusting post balance sheet event.

As a result of financial modelling in respect of the Government's response to the global COVID-19 pandemic, the Group's banks agreed to a waiver of financial covenants for the May 2020 and August 2020 measurement periods. The Directors are confident that the Group's banks will agree to review the calculation of covenants after this date, as more certainty over the impact of closure periods due to COVID-19 is obtained, so as to avoid the risk that a future event of default will occur.

Furthermore, the Group has worked with its banking partners to ensure that sufficient headroom is available to manage working capital requirements throughout the year ending 28 February 2021 following the Group's cautious assessment of future cash flows as a result of the pandemic and consequently, on 6 May 2020 the Group's peak Committed Money Market Loan ("CMML") facility of £68,000,000 usually made available in April, July, October and January was extended such that it will also be made available in August and September. Additionally, on 30 April 2020, the Group extended its used vehicle funding line from £35,000,000 to £45,000,000 to provide additional liquidity if required.

Company Balance Sheet

As at 29 February 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Intangible assets	5	421	667
Tangible assets	6	3,222	3,304
Investments	7	166,722	187,029
		170,365	**191,000**
Current assets			
Debtors	8	171,452	138,165
Cash at bank and in hand		33,616	61,890
Total current assets		**205,068**	**200,055**
Creditors: amounts falling due within one year	10	**(78,202)**	**(77,608)**
Net current assets		**126,866**	**122,447**
Total assets less current liabilities		**297,231**	**313,447**
Creditors: amounts falling due after more than one year	11	**(53,960)**	**(56,033)**
Net assets		**243,271**	**257,414**
Capital and reserves			
Called up share capital	13	36,917	37,661
Share premium account	13	124,939	124,939
Other reserve	13	10,645	10,645
Hedging reserve	14	(407)	(19)
Treasury share reserve	13	(803)	(602)
Capital redemption reserve	13	2,810	2,066
Profit and loss account:			
At start of year		82,724	72,156
(Loss)/profit for the year		(5,102)	18,805
Other changes in retained earnings		(8,452)	(8,237)
	15	69,170	82,724
Total shareholders' funds		**243,271**	**257,414**

These financial statements, on pages 127 to 139, have been approved for issue by the Board of Directors on 3 June 2020 and signed by:

Robert Forrester
Chief Executive

Karen Anderson
Chief Financial Officer

Company Statement of Changes in Equity

For the year ended 29 February 2020

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total Equity £'000
As at 1 March 2019	37,661	124,939	10,645	(19)	(602)	2,066	82,724	257,414
Loss for the year	-	-	-	-	-	-	(5,102)	(5,102)
Tax on items taken directly to equity	-	-	-		-	-	-	80
Fair value losses	-	-	-	(468)	-	-	-	(468)
Total comprehensive expense for the year	-	-	-	(388)	-	-	(5,102)	(5,490)
Sale of treasury shares	-	-	-	-	200	-	(200)	-
Purchase of treasury shares	-	-	-	-	(401)	-	-	(401)
Repurchase of own shares	-	-	-	-	-	-	(2,749)	(2,749)
Cancellation of repurchased shares	(744)	-	-	-	-	744	-	-
Dividend paid	-	-	-	-	-	-	(6,122)	(6,122)
Share based payments charge	-	-	-	-	-	-	619	619
As at 29 February 2020	**36,917**	**124,939**	**10,645**	**(407)**	**(803)**	**2,810**	**69,170**	**243,271**

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 28 February 2019

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total Equity £'000
As at 1 March 2018	38,552	124,934	10,645	(75)	(690)	1,175	72,156	246,697
Profit for the year	-	-	-	-	-	-	18,805	18,805
Tax on items taken directly to equity	-	-	-	(11)	-	-	-	(11)
Fair value gains	-	-	-	67	-	-	-	67
Total comprehensive income for the year	-	-	-	56	-	-	18,805	18,861
Sale of treasury shares	-	5	-	-	88	-	(29)	64
Repurchase of own shares	-	-	-	-	-	-	(3,455)	(3,455)
Cancellation of repurchased shares	(891)	-	-	-	-	891	-	-
Dividend paid	-	-	-	-	-	-	(5,657)	(5,657)
Share based payments charge	-	-	-	-	-	-	904	904
As at 28 February 2019	**37,661**	**124,939**	**10,645**	**(19)**	**(602)**	**2,066**	**82,724**	**257,414**

Notes to the Company Financial Statements

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.

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

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 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. Note 1 of the consolidated financial statements provides further details on the Directors' conclusions regarding the going concern basis of preparation.

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

No profit and loss account is presented by the Company, as permitted under section 408 of the Companies Act 2006. The loss of the Company after posting an impairment charge of £10,757,000 (note 7), for the year ended 29 February 2020 was £5,102,000 (2019: profit of £18,805,000).

The consolidated financial statements include the results of all subsidiaries owned by Vertu Motors plc listed on pages 133 to 135 of these financial statements. Certain of these subsidiaries, which are listed below, have taken the exemption from an audit for the year ended 29 February 2020 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 29 February 2020 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 29 February 2020 of the subsidiaries listed below, further detail of which is provided in note 36 to the consolidated financial statements on page 116.

The subsidiaries which have taken an exemption from an audit for the year ended 29 February 2020 by virtue of s479A Companies Act 2006 are:

Albert Farnell Limited
All Car Parts Limited
Bristol Street First Investments Limited
Bristol Street Fourth Investments Limited
Grantham Motor Company Limited
Hughes of Beaconsfield Limited
Macklin Property Limited
Sigma Holdings Limited
South Hereford Garages Limited
South Hereford Garages Trade Parts LLP
Tyne Tees Finance Limited
Vans Direct Limited
Vertu Ventures Limited
Vertu Motors (Chingford) Limited
Vertu Motors (Continental) Limited
Vertu Motors (Knaresborough) Limited
Vertu Motors (Property) Limited
Vertu Motors (Property 2) Limited
Vertu Motors (VMC) 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 29 February 2020 by virtue of s394A of Companies Act 2006 are:

Aceparts Limited
Best4Vans Limited
Blacks Autos Limited
Blake Holdings Limited
Boydslaw 103 Limited
Bristol Street (No.1) Limited
Bristol Street (No.2) Limited
Bristol Street Commercials (Italia) Limited
Bristol Street Fifth Investments Limited
Bristol Street Fleet Services Limited
Bristol Street Group Limited
Bristol Street Limited
Brookside (1998) Limited
BSH Pension Trustee Limited
Carsandvansdirect Limited
Compare Click Call Limited
Dobies (Carlisle) Limited
Dunfermline Autocentre Limited
Easy Vehicle Finance Limited
Gordon Lamb Group Limited
Gordon Lamb Limited
Gordon Lamb Holdings Limited
Hillendale Group Limited
Hillendale LR Limited
Horseshoe Vehicle Contracts Limited
Hughes Group Holdings Limited
International Concessionaires Limited
K C Motability Solutions Limited
Merifield Properties Limited
Motor Nation Car Hypermarkets Limited
National Allparts Limited
Newbolds Garage (Mansfield) Limited
Nottingham TPS LLP
Peter Blake (Chatsworth) Limited
Peter Blake (Clumber) Limited
Peter Blake Limited
SHG Holdings Limited
The Taxi Centre Limited
Typocar Limited
Vertu Fleet Limited
Vertu Motors (AMC) Limited
Vertu Motors (Durham) Limited
Vertu Motors (Finance) Limited
VanMan Limited
Vertu Motors (Retail) Limited
Vertu Motors (Pity Me) Limited
Vertu Motors Property 2 Holdings Limited
Why Pay More For Cars Limited
Widnes Car Centre Limited
Widnes Car Centre (1994) Limited

The auditors' remuneration for audit and other services was £25,000 (2019: £25,000).

Intangible assets

Intangible assets 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.

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.

1. Accounting Policies (continued)

Deferred taxation (continued)

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.

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. Details of the key assumptions used for the impairment testing for the year ended 29 February 2020, as well as the results of sensitivity analysis performed, are provided in note 7.

2. Critical accounting estimates and judgements (continued)

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 31 of the Vertu Motors plc consolidated financial statements.

3. Employee benefit expense

	2020 £'000	2019 £'000
Wages and salaries	15,313	12,877
Social security costs	1,341	1,845
Pension costs – defined contribution plans	1,922	1,755
	18,576	**16,477**
Share based payments charge (note 17)	733	904
	19,309	**17,381**

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

	2020 Number	2019 Number
Sales	124	121
Service	23	18
Administration	416	410
	563	**549**

5. Intangible assets

	Computer Software £'000
Cost	
At 1 March 2019	2,275
Additions	113
Disposals	(6)
At 29 February 2020	**2,382**
Accumulated Amortisation	
At 1 March 2019	1,608
Amortisation charge	358
Disposals	(5)
At 29 February 2020	**1,961**
Net Book Value	
At 29 February 2020	**421**
At 28 February 2019	**667**

6. Tangible assets

	Computer equipment £'000	Office equipment £'000	Total £'000
Cost			
At 1 March 2019	7,760	544	8,304
Additions	1,601	5	1,606
Disposals	(177)	-	(177)
At 29 February 2020	**9,184**	**549**	**9,733**
Accumulated Depreciation			
At 1 March 2019	4,586	414	5,000
Depreciation charge	1,608	71	1,679
Disposals	(168)	-	(168)
At 29 February 2020	**6,026**	**485**	**6,511**
Net Book Value			
At 29 February 2020	**3,158**	**64**	**3,222**
At 28 February 2019	**3,174**	**130**	**3,304**

7. Fixed asset investments

	2020 £'000
Cost	
At 1 March 2019	189,543
Intercompany transfer	(9,550)
At 29 February 2020	**179,993**
Accumulated impairment charges	
At 1 March 2019	2,514
Impairment charges	10,757
At 29 February 2020	**13,271**
Net Book Value	
At 29 February 2020	**166,722**
At 28 February 2019	**187,029**

Vertu Motors plc, the Company, as at 29 February 2020 and 28 February 2019, 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
Vertu Motors (Continental) Limited *	Motor retailer
Hughes of Beaconsfield Limited *	Motor retailer
South Hereford Garages Trade Parts LLP *	Parts retailer
Vans Direct Limited *	Online van retailer
Vertu Motors Third Limited	Online advertising
All Car Parts Limited *	Online parts retailer

7. 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 (Durham) Limited *	Holding company (dormant subsidiaries)
Bristol Street Fifth Investments Limited *	Holding company (dormant subsidiaries)
Blake Holdings Limited *	Holding company (dormant subsidiaries)
Widnes Car Centre (1994) Limited *	Holding company (dormant subsidiaries)
Brookside (1998) Limited *	Holding company (dormant subsidiaries)
Hillendale Group Limited	Holding company (dormant subsidiaries)
Gordon Lamb Group Limited	Holding company (dormant subsidiaries)
Gordon Lamb Holdings Limited *	Holding company (dormant subsidiaries)
Bristol Street Group Limited *	Holding company
Vertu Motors Property 2 Holdings Limited	Holding company
Sigma Holdings Limited	Holding company
Hughes Group Holdings Limited	Holding company
Vertu Ventures Limited	Holding company
Aceparts Limited	Holding company
SHG Holdings Limited	Holding company
Why Pay More For Cars Limited *	Dormant company
International Concessionaires 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
Gordon Lamb Limited *	Dormant company
Vertu Motors (Finance) Limited	Dormant 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
VanMan Limited *	Dormant company
Best4Vans Limited *	Dormant company
Horseshoe Vehicle Contracts Limited *	Dormant company
Carsandvansdirect Limited *	Dormant company

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

Boydslaw 103 Limited *	Holding company
Dunfermline Autocentre Limited *	Dormant company

7. Fixed asset investments (continued)

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

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

* Held indirectly by the Company.

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

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 ("CGUs") have been determined based on value-in-use calculations.

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 in respect of the Company's trading subsidiaries:

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

Impairment testing in the year ended 29 February 2020 included a cautious assessment of the cash flow impact of a substantial curtailment of the Company's subsidiary companies' operations in response to the global COVID-19 pandemic. Calculations included an assumed three-month full closure of dealership sales operations in the year to February 2021, followed by a further period of steady recovery to historic levels of performance for each CGU starting February 2022.

Annual growth rates typically between 0% and 3% are assumed for years three to five depending on the CGU, after which a growth rate of 0% is assumed to perpetuity. A risk adjusted pre-tax discount rate reflecting the Group's Weighted Average Cost of Capital ("WACC") of 8% (2019: 8%) is applied.

As a result of this value in use calculation taking into account the impact of COVID-19 on post year end trading performance and cash flows, impairment charges of £10,757,000 were incurred during the year ended 29 February 2020 (2019: £Nil) to align the carrying value with the value in use.

Sensitivity analysis has been performed on the impairment test based on three potential scenarios with the following results:

- If the impact of COVID-19 resulted in a reduction in gross profit which is 20% higher than that included in the forecast, the Company would incur an additional impairment charge in respect of fixed asset investments of £1.9m.
- If the growth rate in years three to five reduces to -3%, the Company would incur an additional impairment charge in respect of fixed asset investments of £8.4m.
- If the pre-tax WACC increased to 9%, the Company would incur an additional impairment charge in respect of fixed asset investments of £9.8m.

8. Debtors

	2020 £'000	2019 £'000
Trade debtors	1,401	1,262
Amounts owed by Group undertakings	157,478	126,126
Deferred tax asset (note 9)	1,733	1,467
Value Added Tax	3,586	3,942
Prepayments and accrued income	7,254	5,368
	171,452	**138,165**

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

9. Deferred tax asset

	2020 £'000	2019 £'000
At beginning of year	1,467	1,323
Credited to the profit and loss account	186	155
Credited/(charged) directly to equity	80	(11)
At end of year	**1,733**	**1,467**

The amounts recognised for deferred tax assets, calculated under the liability method at 17% (2019: 17%) are set out below:

	2020 £'000	2019 £'000
Depreciation in excess of capital allowances	601	530
Other short-term timing differences	1,132	937
Total	**1,733**	**1,467**

During the year ending 28 February 2021, the reversal of deferred tax assets is expected to decrease the corporation tax charge for the year by £274,000. This is primarily due to timing differences in relation to depreciation in excess of capital allowances.

10. Creditors: amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	8,421	8,481
Other creditors	26,000	26,000
Corporation tax	2,094	2,597
Deferred consideration	-	1,500
Other taxation and social security	5,180	4,264
Accruals	25,533	25,176
Deferred income	10,974	9,590
	78,202	**77,608**

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

Accruals includes £12,767,000 (2019: £11,971,000) in respect of outstanding service plans.

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

	2020 £'000	2019 £'000
Bank borrowings	43,657	43,601
Deferred consideration	-	2,600
Deferred income (note 12)	10,303	9,832
	53,960	**56,033**

Borrowings are repayable as follows:	2020 £'000	2019 £'000
Under 1 year	-	-
1-2 years	-	-
2-5 years	43,657	43,601
	43,657	**43,601**

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.

	Within one year £'000	Within two to five years £'000	Total £'000
Bank borrowings	-	43,657	43,657
Trade and other creditors	78,202	10,303	88,505
At 29 February 2020	**78,202**	**53,960**	**132,162**

	Within one year £'000	Within two to five years £'000	Total £'000
Bank borrowings	-	43,601	43,601
Trade and other creditors	77,608	12,432	90,040
At 28 February 2019	**77,608**	**56,033**	**133,641**

12. Deferred income

Deferred income due in greater than one year comprises:

	2020 £'000	2019 £'000
Warranty income	10,303	9,832
	10,303	**9,832**

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 £8,915,000 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 (2019: £7,998,000).

13. Called up share capital, share premium, other reserve, treasury share reserve and capital redemption reserve

2020	Ordinary shares of 10p each Number of shares ('000)	Called up Share capital £'000	Share premium account £'000	Other reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Total £'000
At 1 March 2019	375,023	37,661	124,939	10,645	(602)	2,066	174,709
Sale of treasury shares	-	-	-	-	200	-	200
Issuance of treasury shares in satisfaction of exercised share options	529	-	-	-	-	-	-
Purchase of treasury shares	(1,000)	-	-	-	(401)	-	(401)
Cancellation of repurchased shares	(7,432)	(744)	-	-	-	744	-
At 29 February 2020	**367,120**	**36,917**	**124,939**	**10,645**	**(803)**	**2,810**	**174,508**

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.

2019	Ordinary shares of 10p each Number of shares ('000)	Called up Share capital £'000	Share premium account £'000	Other reserve £'000	Treasury share reserve £'000	Capital redemption reserve £'000	Total £'000
At 1 March 2018	383,709	38,552	124,934	10,645	(690)	1,175	174,616
Shares issued during the year	233	-	5	-	88	-	93
Cancellation of repurchased shares	(8,919)	(891)	-	-	-	891	-
At 28 February 2019	**375,023**	**37,661**	**124,939**	**10,645**	**(602)**	**2,066**	**174,709**

14. Hedging reserve

	2020 £'000	2019 £'000
Cash flow hedges:		
At beginning of year	(19)	(75)
Fair value (losses)/gains on derivative financial instruments during the year	(468)	67
Deferred taxation on fair value losses/(gains) during year	80	(11)
At end of year	**(407)**	**(19)**

15. Profit and loss account

	2020 £'000	2019 £'000
As at beginning of year	82,724	72,156
(Loss)/profit for the financial year	(5,102)	18,805
Dividend paid	(6,122)	(5,657)
Share based payments charge	619	904
Repurchase of own shares	(2,749)	(3,455)
Treasury shares issued	(200)	(29)
As at end of year	**69,170**	**82,724**

16. Dividends per share

Dividends of £6,122,000 were paid in the year to 29 February 2020 (2019: £5,657,000), 1.65p per share (2019: 1.50p). In light of the immediate and significant impact of COVID-19 on the Group, the Board does not propose a final dividend in respect of the year ended 29 February 2020.

17. Share based payments

For details of share based payment awards and fair values, see note 31 to the consolidated financial statements. The Company financial statements include a share based payments charge for the year of £733,000 (2019: £904,000).

18. Contingencies

See note 36 to the consolidated financial statements for details of contingent liabilities as at the balance sheet date.

19. Directors' remuneration

The remuneration of the Directors who served during the year from 1 March 2019 to 29 February 2020 is set out within the Directors' Remuneration Report on pages 65 to 70.

20. 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:	**2020 £'000**	**2019 £'000**
No later than 1 year	142	259
Later than 1 year and no later than 5 years	318	67
Later than 5 years	-	-
	460	**326**

21. 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 37 of the consolidated financial statements.

During the financial year ended 29 February 2020, the Company made cash contributions of £nil into the Bristol Street Pension Scheme (2019: £63,000).

Alternative Performance Measures

Set out below are the definitions and sources of various alternative performance measures which are referred to throughout the Annual Report. All financial information provided is in respect of the Vertu Motors plc Group.

Definitions

Like-for-like	Dealerships that have comparable trading periods in two consecutive financial years.
FY2020	The twelve month period ended 29 February 2020.
FY2019	The twelve month period ended 28 February 2019.
Aftersales gross margin	Aftersales gross margin compares the gross profit earned from aftersales activities to the total aftersales revenues, including internal revenue relating to service and vehicle preparation work performed on the Group's own vehicles. This is to properly reflect the real activity of the Group's aftersales department.

Alternative Performance Measures

Adjusted Operating Profit

	2020 £'000	2019 £'000
Operating profit	16,473	29,013
Impairment charges (note 6)	14,378	-
Depreciation on right-of-use assets (note 19)	14,065	-
Amortisation (note 16)	595	543
Share based payment charge	733	904
Operating lease rentals – property	(11,588)	-
Operating lease rentals – vehicles	(5,594)	-
VAT reclaim on dealer deposit contributions	-	(3,069)
Adjusted operating profit	**29,062**	**27,391**

Adjusted Net (Debt)/Cash

	2020 £'000	2019 £'000
Cash and cash equivalents	40,839	66,519
Borrowings (note 26)	(69,204)	(66,766)
Net debt (note 33)	(28,365)	(247)
Used car stocking loans – other borrowings (note 26)	25,547	23,166
Adjusted net (debt)/cash	**(2,818)**	**22,919**

Adjusted Profit Before Tax (PBT)

	2020 £'000	2019 £'000
Profit before tax	7,317	25,332
Non-underlying items (note 8):		
Amortisation	595	543
Share based payment charge	733	904
VAT reclaim on dealer deposit contributions	-	(3,069)
Impairment charges	14,378	-
Operating lease rentals	(17,182)	-
Lease finance costs	3,595	-
Depreciation on right-of-use assets	14,065	-
Adjusted PBT	**23,501**	**23,710**

Alternative Performance Measures (continued)

Tangible net assets per share

	2020 £'000	2019 £'000
Net assets	263,373	276,643
Less:		
Goodwill and other indefinite life assets	(99,315)	(112,278)
Other intangible assets	(2,120)	(2,599)
Add:		
Deferred tax on above adjustments	6,821	6,576
Tangible net assets	**168,759**	**168,342**
Tangible net assets per share	**46.0p**	**44.9p**

At 29 February 2020, there were 369,173,981 shares in issue (2019: 376,605,968) of which, 2,053,821 were hold by the Group's employee benefit trust (2019: 1,582,786).

Like-for-like reconciliations:

Revenues by department

2020	**FY20 Group revenue £'m**	**FY20 Acquisition revenue £'m**	**FY20 Disposals revenue £'m**	**FY20 Ford Parts revenue £'m**	**FY20 Like-for-like revenue £'m**
New car retail and Motability	862.5	(34.9)	(5.3)	-	822.3
New fleet and commercial	708.5	(43.1)	(0.3)	-	665.1
Used cars	1,235.4	(62.3)	(20.6)	-	1,152.5
Aftersales	258.1	(18.5)	(1.8)	-	237.8
Total revenue	**3,064.5**	**(158.8)**	**(28.0)**	**-**	**2,877.7**

2019	**FY19 Group revenue £'m**	**FY19 Acquisition revenue £'m**	**FY19 Disposals revenue £'m**	**FY19 Ford Parts revenue £'m**	**FY19 Like-for-like revenue £'m**
New car retail and Motability	862.8	(18.1)	(9.9)	-	834.8
New fleet and commercial	644.7	(10.5)	(2.5)	-	631.7
Used cars	1,217.6	(38.9)	(28.4)	-	1,150.3
Aftersales	257.1	(11.9)	(2.8)	(8.0)	234.4
Total revenue	**2,982.2**	**(79.4)**	**(43.6)**	**(8.0)**	**2851.2**

Alternative Performance Measures (continued)

Like-for-like reconciliations (continued):

Aftersales revenue by department

2020	FY20 Group revenue £'m	FY20 Acquisition revenue £'m	FY20 Disposals revenue £'m	FY20 Ford Parts revenue £'m	FY20 Like-for-like revenue £'m
Parts	164.8	(10.8)	(1.3)	-	152.7
Other revenue	6.4	(1.2)	-	-	5.2
Parts and other revenue	171.2	(12.0)	(1.3)	-	157.9
Service	134.7	(8.9)	(1.2)	-	124.6
Total revenue*	**305.9**	**(20.9)**	**(2.5)**	**-**	**282.5**

2019	FY19 Group revenue £'m	FY19 Acquisition revenue £'m	FY19 Disposals revenue £'m	FY19 Ford Parts revenue £'m	FY19 Like-for-like revenue £'m
Parts	179.1	(6.6)	(1.8)	(16.0)	154.7
Other revenue	6.3	(0.6)	-	-	5.7
Parts and other revenue	185.4	(7.2)	(1.8)	(16.0)	160.4
Service	124.3	(5.8)	(1.8)	-	116.7
Total revenue*	**309.7**	**(13.0)**	**(3.6)**	**(16.0)**	**277.1**

*Inclusive of both internal and external revenue

Gross profit by department

2020	FY20 Group gross profit £'m	FY20 Acquisition gross profit £'m	FY20 Disposals gross profit £'m	FY20 Ford Parts gross profit £'m	FY20 Like-for-like gross profit £'m
New car retail and Motability	62.7	(2.3)	(0.4)	-	60.0
New fleet and commercial	25.8	(4.0)	-	-	21.8
Used cars	102.1	(2.5)	(1.1)	-	98.5
Aftersales	143.5	(9.7)	(1.1)	(0.8)	131.9
Gross profit	**334.1**	**(18.5)**	**(2.6)**	**(0.8)**	**312.2**

2019	FY19 Group gross profit £'m	FY19 Acquisition gross profit £'m	FY19 Disposals gross profit £'m	FY19 Ford Parts gross profit £'m	FY19 Like-for-like gross profit £'m
New car retail and Motability	63.9	(1.1)	(0.6)	-	62.2
New fleet and commercial	20.2	(0.6)	(0.1)	-	19.5
Used cars	102.0	(1.5)	(1.6)	-	98.9
Aftersales	136.0	(5.9)	(1.7)	(3.8)	124.6
Gross profit	**322.1**	**(9.1)**	**(4.0)**	**(3.8)**	**305.2**

Aftersales gross profit by department

2020	FY20 Group gross profit £'m	FY20 Acquisition gross profit £'m	FY20 Disposal gross profit £'m	FY20 Ford Parts gross profit £'m	FY20 Like-for-like gross profit £'m
Parts	35.7	(2.2)	(0.2)	(0.8)	32.5
Other	4.4	(0.9)	-	-	3.5
Parts and other	40.1	(3.1)	(0.2)	(0.8)	36.0
Service	103.4	(6.5)	(0.8)	-	96.1
Gross profit	**143.5**	**(9.6)**	**(1.0)**	**(0.8)**	**132.1**

Alternative Performance Measures (continued)

Like-for-like reconciliations (continued):

Aftersales gross profit by department (continued)

2019	FY19 Group gross profit £'m	FY19 Acquisition gross profit £'m	FY19 Disposal gross profit £'m	FY19 Ford Parts gross profit £'m	FY19 Like-for-like gross profit £'m
Parts	38.4	(1.4)	(0.3)	(3.8)	32.9
Other	4.1	(0.3)	-	-	3.8
Parts and other	42.5	(1.7)	(0.3)	(3.8)	36.7
Service	93.5	(4.2)	(1.3)	-	88.0
Gross profit	**136.0**	**(5.9)**	**(1.6)**	**(3.8)**	**124.7**

Number of units sold by department

2020	FY20 Group	FY20 Acquisition	FY20 Disposals	FY20 Like-for-like
New car retail	32,701	(1,156)	(173)	31,372
New car Motability	9,722	(117)	(23)	9,582
New fleet	22,559	(1,376)	(10)	21,173
New commercial	17,794	(2,556)	(1)	15,237
Used cars	84,771	(2,433)	(1,108)	81,230
Total units	**167,547**	**(7,638)**	**(1,315)**	**158,594**

2019	FY19 Group	FY19 Acquisition	FY19 Disposals	FY19 Like-for-like
New car retail	35,412	(559)	(366)	34,487
New car Motability	9,795	(47)	(87)	9,661
New fleet	19,154	(112)	(116)	18,926
New commercial	16,327	(285)	(3)	16,039
Used cars	84,444	(1,453)	(1,655)	81,336
Total units	**165,312**	**(2,456)**	**(2,227)**	**160,449**

Average selling price by department

2020	FY20 Group	FY20 Acquisition	FY20 Disposals	FY20 Like-for-like
New car retail and Motability*	18,521	26,306	22,551	18,270
New fleet and commercial*	20,313	15,752	27,600	20,698
Used cars	14,573	25,592	18,594	14,188

*Average selling price is stated inclusive of wholesale units

2019	FY19 Group	FY19 Acquisition	FY19 Disposals	FY19 Like-for-like
New car retail and Motability*	17,287	28,888	18,064	17,129
New fleet and commercial*	19,994	26,545	21,316	19,907
Used cars	14,419	26,778	17,190	14,142

Alternative Performance Measures (continued)

Like-for-like reconciliations (continued):

Operating expenses

2020	FY20 Group £'m	FY20 Acquisition £'m	FY20 Disposals £'m	FY20 Ford Parts Revenue £'m	FY20 Like-for-like £'m
Operating expenses	305.0	(19.7)	(2.4)	-	282.9

2019	FY19 Group £'m	FY19 Acquisition £'m	FY19 Disposals £'m	FY19 Ford Parts Revenue £'m	FY19 Like-for-like £'m
Operating expenses	294.7	(9.6)	(3.9)	(2.2)	279.0

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