17 October 2012

Vertu Motors plc ("Vertu" or "Group")

Unaudited interim results for the six months ended 31 August 2012

Vertu Motors ahead of expectations

Vertu Motors plc, the fast growing automotive retailer with a network of 86 sales and aftersales outlets across the UK, announces its interim results for the six months ended 31 August 2012.

Operational Highlights

- Growth strategy progressed with purchase of 10 further sales outlets since 1 March 2012
- Previous years' acquisitions showing continued trading performance improvements
- New car retail market improving, fuelling 7.9% like-for-like new retail volume increase
- Volume and margins rose in used cars with 13.2% increase in like-for-like gross profit generation, up £2.5m
- Service revenues increased 4.1% on a like-for-like basis, reflecting on-going success of customer retention strategy

Financial Highlights

- The Board anticipates full year results will be ahead of market expectations
- Revenue increased by 14.8% to £628.1m (2012 H1: £547.0m)
- Profit before tax up 26.8% to £5.2m (2012 H1: £4.1m)
- Adjusted profit before tax up 16.3% to £5.0m (2012 H1: £4.3m)
- Balance sheet underpinned by strong freehold and long leasehold property portfolio of £83.8m (31 August 2011: £75.7m)
- Tangible net assets per share 42.4p (31 August 2011: 41.4p)
- Excellent cash conversion with continued operating cash generation of £7.9m (2012 H1: £7.9m)
- Tax rate normalising to 23% (2012 H1: 9.4%)
- Earnings per share 2.00p (2012 H1: 1.86p)
- Adjusted earnings per share* 1.91p (2012 H1: 1.95p) reflecting the impact of the higher tax rate
- Interim dividend up 25% to 0.25p per share (year ended 29 February 2012: 0.2p per share) to be paid in January 2013

* adjusted for exceptional charges, amortisation of intangible assets and share based payments charge/credit

Commenting on the results, Robert Forrester, Chief Executive, said:
"I am delighted to report that the Group has delivered an excellent profit performance for the first half of the financial year with strong growth compared to the prior year. Market conditions have improved and this is reflected in higher sales volumes in both new and used cars. The Group's aftersales strategies are now consistently delivering growth of revenues and profits in the service area. In addition, businesses acquired in recent years are delivering on their growth potential and producing improving returns.

"We have acquired a further 10 outlets and we now operate 86 sales outlets from 70 dealership locations.

"With our strong balance sheet, the Group continues to execute its growth strategy and further acquisition opportunities are being actively progressed. This, coupled with the turnaround strategy that we implement following the acquisition of new businesses, will continue to underpin shareholder value growth."

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INTRODUCTION

The Group saw profitability rise in the six months ended 31 August 2012. Profit before tax increased to £5.2m from £4.1m due to a combination of increased new and used car sales, improved customer retention driving service revenues and the turnaround of businesses new to the Group. Lower share-based payment costs also arose. The consumer environment, whilst still under pressure, has improved year on year.

The Group has grown rapidly since its flotation in December 2006 and now operates 86 sales outlets in the United Kingdom. It is the ninth largest automotive retailer in the UK by revenue and the seventeenth largest in Europe. Since 1 March 2012 a further ten sales outlets have been added through acquisitions (four during the six months to 31 August 2012, and a further six in September 2012). Five sub-scale franchise sales outlets ceased operation during the reported period and these dealership locations continue to operate as solus franchise operations. Subsequent to the period end two dealership locations have been closed and their activities relocated to other local Group dealerships. The Board continues to proactively manage the Group's franchise and property portfolio to ensure it will maximise shareholder returns.

There still remains considerable opportunity to improve the financial performance of the dealerships acquired in the last few years and the Board is focused on delivering this improvement to generate shareholder value. Macro-economic conditions continue to place pressure on the sector which will create further expansion opportunities for the Group, as the sector consolidation process continues.

FINANCIAL REVIEW

Revenue in the period rose by 14.8% to £628.1m (six months ended 31 August 2011 : £547.0m). Acquisitions undertaken in the period contributed £3.8m of revenue, with prior year acquisitions accounting for a further £41.4m of the revenue increase. Underlying revenues rose 7.6% reflecting higher vehicle sales levels in the period. Overall gross margins declined from 11.6% to 11.4% with consistent vehicle margins at 7.2% and a decline in aftersales margins. This fall was driven mainly by margin mix due to a petrol forecourt business acquired last year and pricing initiatives in vehicle servicing.

Higher levels of dealership activity and improved operational performance have led to a reduction in operating expenses as a percentage of revenues from 10.7% to 10.4% in continuing operations. Underlying operating expenses saw upward pressure in the period due to higher remuneration levels as higher bonuses and commissions were paid reflecting the enhanced Group performance year on year. Property and energy costs also increased and overall underlying operating expenses rose 4.8% (£2.7m) from £56.4m to £59.1m. The Board is continuing to focus on identifying cost savings in operations.

Following the agreement during the period with HM Revenue and Customs ("HMRC") of various claims made in respect of overpayments in Value Added Tax (VAT) in previous years, an amount of £0.5m has been recognised as an exceptional income during the period. Exceptional costs of £0.4m have arisen from the closure of two accident repair centres, five sub-scale franchise outlets and the reorganisation of new acquisitions during the period.

During the six months ended 31 August 2011, the Group made progress in resolving several outstanding matters with HMRC which dated back over the previous four years. As a result, the taxation charge for the year ended 29 February 2012 reflected the release of prior year tax provisions, and reduced the effective tax rate from the headline UK Corporation Tax rate of 26% to below 10%. In the current year the Board expects that the effective tax rate will revert to being closer to the headline UK Corporation Tax rate and this higher rate of 23% has been applied to these interim results. This compares to a rate of 9.4% in the prior period interim results.

The Group has consistently demonstrated its ability to convert profits into cash and in this period operating cashflows were £7.9m (six months ended 31 August 2011: £7.9m).

During the period the Group invested £7.0m in acquisitions and capital expenditure. Following this significant investment, the Group remains in a strong financial position with net cash of £2.2m at 31 August 2012 compared to £3.5m at 29 February 2012. In addition, the Group had undrawn bank facilities of £35.5m at 31 August 2012.

The balance sheet at 31 August 2012 shows a reduction in inventories and a corresponding reduction in current trade payables of some £34m compared to the balances at 29 February 2012. This is as a result of manufacturers reducing pipeline new vehicle inventory as they have sought to rebalance their manufacturing output more closely with market demand.

The Group continues to grow net assets per share and tangible net assets per share, which stand at 31 August 2012 at 51.4p and 42.4p respectively (31 August 2011 : 50.2p and 41.4p).

Earnings Per Share ("EPS") increased from 1.86p to 2.00p per share, and adjusted EPS fell to 1.91p (six months ended 31 August 2011 : 1.95p) per share reflecting the impact of the higher tax charge in the period.

Dividend

It is the Board's intention to maintain a progressive dividend policy, with dividend payments increasing as the profitability of the Group grows. The Board has also reviewed the balance of the payments between the interim and final dividends, as in the year ended 29 February 2012 the final dividend of 0.4p per share was twice the interim dividend of 0.2p per share. An interim dividend of 0.25p per share will be paid net on 25 January 2013 to all members appearing on the register on the record date of 4 January 2013. The year-on-year increase of 25% in the interim dividend includes both a progressive increase and an element of rebalancing between the interim and final payments as set out above and should therefore not be taken as a guide to the increase in the total full year dividend payment.

OPERATING REVIEW

Growth strategy and portfolio development

The Group has continued its fast growth strategy during 2012 with four sales outlets added in the six months ended 31 August 2012 and a subsequent six sales outlets added in September. At 31 August 2012 the Group operated 82 sales outlets in 69 dealership locations. At the date of this report the Group operates 86 sales outlets from 70 dealership locations. The Board considers that further expansion of outlets is likely in the coming months reflecting a strong pipeline of potential transactions.

In June 2012 the Group purchased Mansfield Suzuki from the Co-operative Motor Group which included a vacant showroom. This freehold operation has subsequently been expanded to include a Hyundai outlet complementing the existing Group Hyundai dealership in Nottingham. This dealership is the Group's first outlet with Suzuki.

In the same month the Group purchased a further two freehold Ford dealerships in Durham and Hartlepool. These outlets brought the total number of the Group's North East outlets to nine and complemented the existing Ford operation in Morpeth providing significant regional synergies.

In July 2012 the Group franchised its Bristol Street Motor Nation Doncaster used car sales outlet. The Honda franchise business introduced to the location was transferred through a trade and assets purchase from Pendragon plc. The new Honda outlet represents the Group's sixth Vertu Honda business all of which cover a contiguous area of Eastern England.

Subsequent to 31 August 2012, on 8 September 2012 the Group purchased a further three dealerships from the Co-operative Motor Group. These dealerships represented Renault and Nissan in Bradford, Nissan and Peugeot in Ilkeston and Nissan and Fiat in Derby. The Bradford property is freehold and the Derby and Ilkeston sites are leasehold with fixed rentals for the duration of the lease terms, which are both in excess of 10 years. There is vacant showroom capacity on the Derby site and it is envisaged that this will be refranchised in the coming months, with the Volvo franchise being added from 1 January 2013. Volvo will be another new franchise to the Group and this reflects the Board's desire to add premium franchises to the Group over time.

Dacia is a value brand being introduced into the UK by Renault and has been added to each of the Group's Renault dealerships. It is anticipated that this will add significant incremental sales volumes and subsequently aftersales volumes to these Renault operations.

The Board continues to evaluate the Group's portfolio of sales outlets to ensure franchise representation at each location optimises Group performance. During the early part of the period, the Group exited three Renault, one Mazda and one Chevrolet sales outlets. These outlets were on multi-franchised dealership locations and other franchise sales operations continue at these dealerships. Aftersales representation for the exiting franchises has been retained in four out of the five cases. The Board believe that these changes will improve operating margins.

Subsequent to the period the Group closed two dealership locations in Widnes and Smethwick. Bristol Street Motor Nation Widnes closed on 1 October 2012. This leasehold dealership was marginal in profitability terms and the Group will take advantage of the property lease expiring in 2014. The sales and aftersales activities of the dealership have been transferred to the nearby Widnes Nissan operation which was acquired in 2011. It is envisaged that by reducing overheads through this consolidation, overall returns will increase. The Group now has one Motor Nation used car only sales operation in Birmingham, which is profitable.

The Group operates six Ford dealerships in the West Midlands conurbation. The smallest dealership in Hagley Road, Smethwick was closed on 1 October 2012 and its activities transferred to the Group's other nearby Ford dealerships. This transfer will again reduce the Group's operating overheads and increase activity levels at the remaining locations. The closed dealership is freehold and the Board will seek to dispose of it in due course. The Group also closed two unprofitable accident repair centre operations in the period in Stafford and Dunfermline.

The closed sales outlets and accident repair centres (including the two dealerships closed in September) contributed a loss of £0.3m in the six months ended 31 August 2012.

Dealerships acquired in the six months ended 31 August 2012, contributed a loss of £0.2m to the Group's profit before tax during the period. This loss reflected the timing of the acquisitions, which completed after the profitable plate change month of March, and the Group's strategy of purchasing underperforming businesses. The Board believes that the Group's track record of turning around businesses is strong and that the lower margins exhibited by the recent acquisitions represent a significant opportunity to drive future organic earnings growth.

Dealership Operations

Vehicle Sales Analysis
For the six month period to 31 August

Number of vehicles sold	HY2013 Core	HY2013 Acq**	HY2013 Total	HY2012 Total	Like-for-like* % Variance
New retail cars	9,919	830	10,749	9,422	7.9
Motability cars	3,254	549	3,803	3,612	(8.2)
Fleet and commercial vehicles	9,968	122	10,090	8,736	14.2
Used retail vehicles	21,006	1,673	22,679	19,780	7.5
	44,147	**3,174**	**47,321**	**41,550**	**7.7**

* Dealerships are included in like-for-like comparisons in the first month anniversary following acquisition into the Group
** Dealerships acquired since the beginning of HY2012

Revenue and margins

	New car retail and Motability	New Fleet and Commercial	Used cars	Aftersales	Total
Six months ended 31 August 2012					
Revenue (£'m)	188.2	163.7	214.9	61.3	**628.1**
Revenue (%)	30	26	34	10	**100**
Gross Margin %	7.3	2.2	11.0	40.5%*	**11.4**
Six months ended 31 August 2011					
Revenue (£'m)	170.6	133.9	188.8	53.7	**547.0**
Revenue (%)	31	24	35	10	**100**
Gross Margin %	7.4	2.1	10.5	42.5*	**11.6**
Year ended 29 February 2012					
Revenue (£'m)	330.9	270.1	374.8	112.5	**1,088.3**
Revenue (%)	30	25	34	11	**100**
Gross Margin %	7.4	2.3	11.1	41.7*	**11.9**

*margin in aftersales expressed on internal and external turnover

The Group's new car retail sales volumes (excluding sales under the Motability Scheme) rose 7.9% on a like-for-like basis in the six months ended 31 August 2012. These represent sales to private customers and the corresponding UK new car private registrations data rose 12.1% in the same period. The Board considers that the private registration data has been impacted by increased dealer pre-registrations year on year and KPMG have estimated that the new car private registrations have been overstated by 5% during 2012 as a result.

The enhanced levels of sales of new retail cars in part reflect an improving consumer environment and the reversal of the impact of the Japanese natural disaster of March 2011. It also reflects the strengthening of Sterling against the Euro and the significant overcapacity that exists within the European car market. The economic woes in Central and Southern Europe in particular are resulting in extra new car volume being transferred to the UK, where increased incentives are being offered by both manufacturers and retailers in order to stimulate customer demand. The fall in European new car sales is placing significant challenges on many of the Group's manufacturer partners' financial performance in Europe, with a number incurring substantial financial losses. This is impacting their ability to provide significant financial support to stimulate the UK market despite wishing to increase volumes. Consequently, volume pressure has placed downward momentum on the Group's margins in new retail car sales.

The Group's like-for-like Motability Scheme sales are down 8.2% compared to the first half of the previous period due to a trend towards lower applications to the Scheme by eligible consumers. This channel has lower margins than sales to new retail customers. Overall new car retail and Motability combined margins have therefore been broadly stable at 7.3% (six months ended 31 August 2011:7.4%) due to the mix impact of higher retail sales and lower sales to the Motability Scheme. Consequently, new car retail and Motability combined gross profits remained flat on a like-for-like basis.

Fleet and commercial new vehicle like-for-like sales volumes increased by 14.2% in the period reflecting strong growth in car supply to fleets where volumes increased by 28.7% like-for-like, while new commercial vehicle volumes grew by 0.4%. This growth in car fleet operations was against a backdrop of declining registrations in the UK in the car fleet sector, which recorded a decline of 0.7% in the period, while the commercial market saw a decline in UK registrations of 2.7%. The Group has focused on increasing supply to its key customers across its full range of franchises which has been aided by the growth in the number of franchises the Group now represents. Gross margins improved slightly from 2.1% to 2.2% with gross profit per unit in line with the Group's historic norms at £353 per unit and overall gross profits rose £0.6m on a like-for-like basis.

The UK used car market in 2012 has returned to more benign conditions following significant volume and margin pressure in the prior year period. Supply constraints, as a result of reduced new car sales in recent years have reduced the sales in the UK of used cars under three years old, having previously been the mainstay of franchised retailers' used car operations. Franchised retailers have moved into the sale of older vehicles traditionally sold in the private market or through the independent, non-franchised sector. In 2011, franchised retailers sold 83% of used cars sold in the under two years old segment, compared to only 56% of cars in the six to eight years old segment (Source: BCA) so historical patterns persist but on a less marked basis. The average age of cars in the UK vehicle parc continues to rise from 6.79 years in 2007 to 7.44 years in 2011. These trends place supply constraints on retailers but medium term used car residuals are likely to be underpinned.

The Group's used car volumes rose 7.5% on a like-for-like basis in the six months ended 31 August 2012 reflecting more encouraging consumer sentiment and enhanced dealership performances as processes are improved. The Group has benefitted from expanding the number of used car buyers which has aided the sourcing of vehicles. Like-for-like gross margins rose strongly from 10.6% to 11.4% as supply constraints, allied with enhanced demand, underpinned stronger used car values. In addition, newly acquired businesses saw margins improve as the Group's used car management processes were embedded. There remains further scope to improve margins in those businesses acquired in 2012 and the prior reporting period, as used car gross margins of 8.2% in these businesses remain below the Group average.

Return on investment in used cars remains a major key performance indicator for the Group against an industry target benchmark of 100%. The core Group dealerships had a return on investment in used cars of 155%, whereas 2012 and prior period acquisitions reached 87.2%. Whilst even this level is above the industry average, this highlights the potential for future organic earnings growth as businesses mature.

Aftersales activities, such as servicing, accident repairs and supply of parts remain a crucial element of the business model. Aftersales operations generated 42.7% of the Group's gross profit (six months ended 31 August 2011 : 44.1%) in the period. The decline in relative terms reflects the substantial growth in vehicle sales in the period.

Like-for-like service revenues rose 4.1% despite a continuing fall in the number of one to three year old cars in the UK vehicle parc. These one to three year old cars have historically been the core market for franchised dealer aftersales operations. This decline has also reduced the volume of warranty work undertaken in dealership service operations and this trend has been reinforced by the superior product quality of new vehicles compared to that of a few years ago. The continued success of the Group in growing its service operations is evidenced through enhanced customer retention and increasing customer spend per visit through the improved sale conversion of required repair work and related add-on products.

The Board considers that the increase in service revenues is a major differentiator for the Group and exhibits the ability of Group management to execute key strategies. Further improvements in service performance are being targeted.

It has been the Group strategy to grow service revenues by reducing the price of servicing and repairs on older vehicles including the sale of service plans at discounted rates. This success in increasing customer retention on older cars has reduced service margins in the period from 74.6% to 74.4%. However the increased volumes have resulted in a rise in overall gross profit in service of 3.7% on a like-for-like basis.

The decline in the overall aftersales margin to 40.5% (six months ended 31 August 2011: 42.5%) is predominantly due to the impact of low margin forecourt activities acquired in second half of the prior period. Margins, however, have been under pressure in all aftersales channels.

Accident repair centres continue to be buffeted by lower demand due to falling accident rates and this is also having a knock on effect on trade parts demand. The number of accident repair centres in the UK is contracting at a significant rate as market forces bring demand and supply more into balance. The Group's remaining accident repair centres saw revenues like-for-like decline by 5.6% and overall profits declined 8.2%.

The parts operations of the Group traded at the previous years' levels despite the pressures of reduced demand from the accident repair sector. Increased supply of parts through the Group's service operations aided profitability.

CURRENT TRADING AND OUTLOOK

The UK consumer environment remains challenging as families seek to rebuild their personal balance sheets, and yet, the UK economic backdrop appears to be improving. The weakness of the wider European economy, combined with the increase in the value of Sterling, is likely to lead European manufacturers to seek to raise the volumes of new vehicles they wish to sell in the UK. Whilst this trend may lead to margin pressure, especially given the financial pressures faced by many manufacturers in Europe at the present time, a higher volume environment normally benefits the Group. The latest SMMT forecast for 2012 is for a total car market of 1.97m and the SMMT forecast for 2013 is 1.99m. The Board believes that there is likely to be more upside risk than downside risk in these forecasts.

September is a crucial month for Group profitability in the second half of the financial year, since it is a plate change month. The Group traded ahead of prior year profit levels in the month driven by a continuation of the increase in new and used car volumes and an enhanced contribution from newly acquired businesses. New retail sales volumes (excluding sales under the Motability scheme) rose on a like-for-like basis by 4.0% in September 2012 against an increase in UK private registrations of 14.2%. Used retail sales volumes also rose by 5.5% in the month on a like-for-like basis.

The Board believes that given this robust performance and current market trends, the full year results are likely to be above current market expectations.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 31 August 2012

	Note	Six months ended 31 August 2012 £'000	Six months ended 31 August 2011 £'000	Year ended 29 February 2012 £'000
Revenue				
Continuing operations		624,300	547,052	1,088,262
Acquisitions		3,844	-	-
		628,144	**547,052**	**1,088,262**
Cost of sales				
Continuing operations		(553,412)	(483,620)	(958,635)
Acquisitions		(3,309)	-	-
		(556,721)	**(483,620)**	**(958,635)**
Gross profit				
Continuing operations		70,888	63,432	129,627
Acquisitions		535	-	-
		71,423	**63,432**	**129,627**
Operating expenses				
Continuing operations		(65,089)	(58,772)	(121,218)
Acquisitions		(760)	-	-
		(65,849)	**(58,772)**	**(121,218)**
Operating profit/(loss) before amortisation, share based payments credit/(charge) and exceptional charges				
Continuing operations		5,799	4,660	8,409
Acquisitions		(225)	-	-
		5,574	**4,660**	**8,409**
Amortisation of intangible assets		(140)	(144)	(293)
Share based payments credit/(charge)		247	(60)	(120)
Exceptional charges	5	(252)	-	(1,311)
Operating profit		**5,429**	**4,456**	**6,685**
Finance income	4	688	775	1,423
Finance costs	4	(1,257)	(1,137)	(2,567)
Exceptional finance income	5	316	-	-
Profit before tax, amortisation, share based payments credit/(charge) and total exceptional credits/(charges)		5,005	4,298	7,265
Amortisation of intangible assets		(140)	(144)	(293)
Share based payments credit/(charge)		247	(60)	(120)
Total exceptional income/(charges)	5	64	-	(1,311)
Profit before tax		**5,176**	**4,094**	**5,541**
Taxation	6	(1,190)	(385)	(508)
Profit for the period attributable to equity holders		**3,986**	**3,709**	**5,033**
Basic earnings per share (p)	7	**2.00**	**1.86**	**2.53**
Diluted earnings per share (p)	7	**2.00**	**1.86**	**2.53**
Adjusted earnings per share (p)	7	**1.91**	**1.95**	**3.19**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 31 August 2012

	Note	Six months ended 31 August 2012 £'000	Six months ended 31 August 2011 £'000	Year ended 29 February 2012 £'000
Profit for the period		**3,986**	**3,709**	**5,033**
Other comprehensive income/(expense)				
Actuarial losses on retirement benefit obligations	11	(1,334)	(543)	(1,348)
Deferred tax relating to actuarial losses on retirement benefit obligations		316	142	383
Cash flow hedges	8	(21)	(299)	(290)
Deferred tax relating to cash flow hedges	8	5	76	72
Other comprehensive expense for the period, net of tax		**(1,034)**	**(624)**	**(1,183)**
Total comprehensive income for the period attributable to equity holders		**2,952**	**3,085**	**3,850**

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 31 August 2012

	Note	31 August 2012 £'000	31 August 2011 £'000	29 February 2012 £'000
Non-current assets				
Goodwill		20,620	20,490	20,620
Other intangible assets		954	1,008	987
Retirement benefit asset	11	342	1,773	1,690
Property, plant and equipment		91,948	77,439	87,374
		113,864	**100,710**	**110,671**
Current assets				
Inventories		174,264	194,864	208,436
Property assets held for sale		-	6,630	-
Trade and other receivables		26,957	27,024	28,248
Cash and cash equivalents		15,182	23,771	12,859
Total current assets		**216,403**	**252,289**	**249,543**
Total assets		**330,267**	**352,999**	**360,214**
Current liabilities				
Trade and other payables		(202,503)	(230,839)	(238,706)
Current tax liabilities		(4,183)	(3,976)	(3,492)
Borrowings		(2,000)	(1,500)	(2,000)
Total current liabilities		**(208,686)**	**(236,315)**	**(244,198)**
Non-current liabilities				
Borrowings		(10,970)	(8,288)	(7,349)
Derivative financial instruments		(231)	(218)	(209)
Deferred income tax liabilities		(2,823)	(3,631)	(3,225)
Provisions for other liabilities		(5,173)	(4,499)	(4,757)
		(19,197)	**(16,636)**	**(15,540)**
Total liabilities		**(227,883)**	**(252,951)**	**(259,738)**
Net assets		**102,384**	**100,048**	**100,476**
Capital and reserves attributable to equity holders of the Group				
Ordinary shares		19,928	19,928	19,928
Share premium		60,506	60,506	60,506
Other reserve		8,820	8,820	8,820
Hedging reserve	8	(175)	(164)	(159)
Retained earnings		13,305	10,958	11,381
Shareholders' equity		**102,384**	**100,048**	**100,476**

CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 31 August 2012

	Note	Six months ended 31 August 2012 £'000	Six months ended 31 August 2011 £'000	Year ended 29 February 2012 £'000
Operating profit		5,429	4,455	6,685
Loss/(profit) on sale of tangible fixed assets		6	(5)	(11)
Amortisation of intangible assets		140	144	293
Depreciation of property, plant and equipment		1,962	1,870	3,860
Decrease/(increase) in inventories		2,802	(1,095)	(8,159)
(Increase)/decrease in trade and other receivables		(1,690)	1,178	205
(Decrease)/increase in payables		(894)	993	3,902
Increase in provisions		415	349	608
Share based payments (credit)/charge		(247)	60	120
Cash generated from operations		**7,923**	**7,949**	**7,503**
Tax received		-	-	11
Tax paid		(576)	(558)	(1,325)
Finance income received		12	95	61
Finance costs paid		(665)	(392)	(945)
Net cash generated from operating activities		**6,694**	**7,094**	**5,305**
Cash flows from investing activities				
Acquisition of businesses, net of cash, overdrafts and borrowings acquired		(4,829)	(3,993)	(5,831)
Acquisition of freehold land and buildings		-	-	(4,035)
Purchases of intangible fixed assets		(107)	(74)	(220)
Purchases of property, plant and equipment		(2,218)	(2,133)	(4,362)
Proceeds from disposal of property, plant and equipment		20	34	56
Net cash outflow from investing activities		**(7,134)**	**(6,166)**	**(14,392)**
Cash flows from financing activities				
Proceeds from borrowings	9	4,560	-	-
Repayment of borrowings	9	(1,000)	-	(500)
Dividends paid to Company shareholders		(797)	(599)	(996)
Net cash inflow/(outflow) from financing activities		**2,763**	**(599)**	**(1,496)**
Net increase/(decrease) in cash and cash equivalents	**9**	**2,323**	**329**	**(10,583)**
Cash and cash equivalents at beginning of period		12,859	23,442	23,442
Cash and cash equivalents at end of period		**15,182**	**23,771**	**12,859**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 31 August 2012

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total Equity £'000
As at 1 March 2012	**19,928**	**60,506**	**8,820**	**(159)**	**11,381**	**100,476**
Profit for the period	-	-	-	-	3,986	3,986
Actuarial losses on retirement benefit obligations	-	-	-	-	(1,334)	(1,334)
Tax on items taken directly to equity	-	-	-	5	316	321
Fair value losses	-	-	-	(21)	-	(21)
Total comprehensive income for the period	**-**	**-**	**-**	**(16)**	**2,968**	**2,952**
Dividend paid					(797)	(797)
Share based payments credit	-	-	-	-	(247)	(247)
As at 31 August 2012	**19,928**	**60,506**	**8,820**	**(175)**	**13,305**	**102,384**

For the six months ended 31 August 2011

	Ordinary share capital £'000	Share premium £'000	Other reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
As at 1 March 2011	**19,928**	**60,506**	**8,820**	**59**	**8,189**	**97,502**
Profit for the period	-	-	-	-	3,709	3,709
Actuarial losses on retirement benefit obligations	-	-	-	-	(543)	(543)
Tax on items taken directly to equity	-	-	-	76	142	218
Fair value losses	-	-	-	(299)	-	(299)
Total comprehensive income for the period	**-**	**-**	**-**	**(223)**	**3,308**	**3,085**
Dividend paid	-	-	-	-	(599)	(599)
Share based payments charge	-	-	-	-	60	60
As at 31 August 2011	**19,928**	**60,506**	**8,820**	**(164)**	**10,958**	**100,048**

For the year ended 29 February 2012

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

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

NOTES

For the six months ended 31 August 2012

1. Basis of Preparation

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

The financial information for the period ended 31 August 2012 and similarly the period ended 31 August 2011 has neither been audited nor reviewed by the auditors. The financial information for the year ended 29 February 2012 has been based on information in the audited financial statements for that period.

The information for the year ended 29 February 2012 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that period has been delivered to the Registrar of Companies. The Auditors' Report on those accounts was not qualified and did not contain an emphasis of matter statement under section 498 of the Companies Act 2006.

2. Accounting policies

The annual consolidated financial statements of Vertu Motors plc are prepared in accordance with IFRSs as adopted by the European Union. The annual report has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, share based payments and financial assets and liabilities (including derivative financial instruments) at fair value through profit or loss.

The accounting policies adopted in this interim financial report are consistent with those of the Group's financial statements for the year ended 29 February 2012 and can be found on our website, www.vertumotors.com.

In addition, this unaudited interim financial report does not comply with IAS 34 Interim Financial Reporting, which is not required to be applied under the AiM Rules.

3. Segmental information

The Group complies with 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. As such, the Group has only one reportable business segment, since the Group is operated and is managed on a dealership by dealership basis. Dealerships operate a number of different business streams such as new vehicle sales, used vehicle sales and aftersales operations. Management is organised based on the dealership operations as a whole rather than the specific business streams.

These dealerships are considered to have similar economic characteristics and offer similar products and services which appeal to a similar customer base. As such, the results of each dealership have been aggregated to form one reportable business segment.

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

	New car retail and Motability	New fleet and commercial	Used cars	Aftersales	Total
Six months ended 31 August 2012					
Revenue (£'m)	188.2	163.7	214.9	61.3	**628.1**
Revenue (%)	30	26	34	10	**100**
Gross Margin %	7.3	2.2	11.0	40.5*	**11.4**
Six months ended 31 August 2011					
Revenue (£'m)	170.6	133.9	188.8	53.7	**547.0**
Revenue (%)	31	24	35	10	**100**
Gross Margin %	7.4	2.1	10.5	42.5*	**11.6**
Year ended 29 February 2012					
Revenue (£'m)	330.9	270.1	374.8	112.5	**1,088.3**
Revenue (%)	30	25	34	11	**100**
Gross Margin %	7.4	2.3	11.1	41.7*	**11.9**

*margin in aftersales expressed on internal and external turnover

4. Net finance costs

	Six months ended 31 August 2012 £'000	Six months ended 31 August 2011 £'000	Year ended 29 February 2012 £'000
Interest on short term bank deposits	12	37	61
Vehicle stocking interest	-	58	-
Other finance income relating to Group pension scheme	676	680	1,362
Finance income	**688**	**775**	**1,423**
Bank loans and overdrafts	(406)	(392)	(809)
Vehicle stocking interest	(152)	-	(267)
Other finance costs relating to Group pension scheme	(690)	(738)	(1,477)
Other finance costs	(9)	(7)	(14)
Finance costs	**(1,257)**	**(1,137)**	**(2,567)**

5. Exceptional income/(charges)

	Six months ended 31 August 2012 £'000	Six months ended 31 August 2011 £'000	Year ended 29 February 2012 £'000
Reclaims of VAT overpayments	158	-	-
Reorganisation and closure costs	(410)	-	(1,311)
	(252)	**-**	**(1,311)**
Exceptional interest income on VAT reclaims	316	-	-
	64	**-**	**(1,311)**

6. Taxation

The tax charge for the six months ended 31 August 2012 has been provided at the effective rate of 23% (six months ended 31 August 2011: 9.4%).

From 1 April 2012 the main rate of Corporation tax was 25%.

7. Earnings per share

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

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

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

	Six months ended 31 August 2012 £'000	Six months ended 31 August 2011 £'000	Year ended 29 February 2012 £'000
Profit attributable to equity shareholders	3,986	3,709	5,033
Amortisation of intangible assets	140	144	293
Share based payments (credit) charge	(247)	60	120
Exceptional (income)/charge	(64)	-	1,311
Tax effect of adjustments	(17)	(30)	(401)
Adjusted earnings attributable to equity shareholders	**3,798**	**3,883**	**6,356**
Weighted average number of shares in issue ('000s)	199,278	199,278	199,278
Potentially dilutive shares ('000s)	103	-	14
Diluted weighted average number of shares in issue ('000s)	**199,381**	**199,278**	**199,292**
Basic earnings per share	**2.00p**	**1.86p**	**2.53p**
Diluted earnings per share	**2.00p**	**1.86p**	**2.53p**
Adjusted earnings per share	**1.91p**	**1.95p**	**3.19p**
Diluted adjusted earnings per share	**1.91p**	**1.95p**	**3.19p**

8. Hedging reserve

	31 August 2012 £'000	31 August 2011 £'000	29 February 2012 £'000
Cash flow hedge:			
At beginning of period	(159)	59	59
Fair value losses on derivative financial instruments during the period	(21)	(299)	(290)
Deferred taxation on fair value losses during period	5	76	72
At end of period	**(175)**	**(164)**	**(159)**

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

	31 August 2012 £'000	31 August 2011 £'000	29 February 2012 £'000
Net increase (decrease) in cash and cash equivalents	2,323	329	(10,583)
Cash inflow from increase in borrowings	(4,560)	-	-
Cash outflow from repayment of borrowings	1,000	-	500
Cash movement in net cash	**(1,237)**	**329**	**(10,083)**
Capitalisation of loan arrangement fees	-	75	76
Amortisation of loan arrangement fee	(61)	(60)	(122)
Non cash movement in net cash	**(61)**	**15**	**(46)**
Movement in net cash	**(1,298)**	**344**	**(10,129)**
Opening net cash	**3,510**	**13,639**	**13,639**
Closing net cash	**2,212**	**13,983**	**3,510**

10. Acquisitions

On 28 June 2012, the Group acquired the trade and assets of two Ford dealerships in Hartlepool and Durham for cash consideration of £3.1m.

On 29 June 2012, the Group acquired the trade and assets of a Suzuki dealership in Mansfield for cash consideration of £1.8m.

11. Retirement benefits

The defined benefit plan assets and liabilities have been updated to reflect their market value as at 31 August 2012. Differences between the expected return on assets and the actual return on assets have been recognised as an actuarial gain or loss in the Consolidated Statement of Comprehensive Income in accordance with the Group's accounting policy.

During the six month period ended 31 August 2012, there was a small gain on assets of £42,000. There have also been changes in the financial assumptions underlying the calculation of the liabilities in the same period. In particular, the rate of discount has been decreased in line with the fall in bond yields. This has led to a higher value being placed on liabilities at 31 August 2012 than assumed at the beginning of the financial period, resulting in a loss of £1,376,000. Therefore, in total, there was an actuarial loss in the period of £1,334,000 before deferred taxation, recognised in the Consolidated Statement of Comprehensive Income.

12. Events after the balance sheet date

On 8 September 2012 the Group acquired the trade and assets of three dealership locations in Derby, Ilkeston and Bradford, representing the Nissan, Renault, Peugeot and Fiat franchises. The total estimated consideration was £5.5m of which £3.9m is deferred over three years.

On 1 October 2012 the Group closed two dealership operations being the Bristol Street Motor Nation activity in Widnes and Hagley Road Ford.