CAFFYNS

Caffyns Annual Report **2014**

Contents

Skoda, Ashford


Volkswagen, Worthing

Architects, Stubbs Rich LLP

Volkswagen, Worthing

Results at a Glance

Summary

	2014	2013**
	£'000	£'000
Revenue	**193,166**	164,965
Underlying* profit before tax	**2,166**	1,218
Profit before tax	**1,566**	1,122
Underlying* EBITDA	**3,941**	2,981
	p	p
Underlying* earnings per share	**75.5**	37.3
Earnings per share	**51.0**	35.5
Dividend per share for the year	**18.0**	12.0
Proposed final dividend per share	**12.0**	7.0

* Underlying results exclude items that have non-trading attributes due to their size, nature or incidence.
** Restated to reflect the impact of the adoption of IAS 19 (2011).

Highlights

- Underlying profit before tax up 78% to £2,166,000 (2013: £1,218,000)
- Profit before tax up 40% to £1,566,000 (2013: £1,122,000)
- Like for like new car unit sales up 18.6%
- Like for like used car unit sales up 17.5%
- Net cash generated by operating activities of £5.37m (2013: outflow £0.04m)
- Underlying earnings per share increased by 102% to 75.5p (2013: 37.3p)
- Basic earnings per share increased by 44% to 51.0p (2013: 35.5p)
- Recommended dividend per ordinary share for year increased by 50% to 18.0p (2013:12.0p)
- New flagship Volkswagen dealership opened in Worthing
- Property portfolio revalued at 31 March 2014 — £6.0m surplus (not included in accounts)

Operational and Business Review

Summary of results

I am pleased to report further profit improvement during the year under review and an underlying profit before tax for the year of £2.17m, up 78% from £1.22m last year.

Profit before tax rose to £1.57m from £1.12m last year (as restated*).

Revenue for the year was up 17.1% to £193.2m (2013: £165.0m). Revenue on a like for like basis increased by 28.1% to £193.2m (2013: £150.8m).

Underlying earnings per share for the year were 75.5p (2013: 37.3p as restated). Basic earnings per share were 51.0p (2013: 35.5p as restated).

New and Used Cars

Our new unit sales increased by 18.6% on a like for like basis. Over the same twelve month period, total UK new car registrations rose by 12.5%. Within this, the private and small business sector in which we operate rose by 17.8% so we again outperformed both the overall UK average and our specific sector. Our premium and premium-volume franchises continue to perform well.

Used car unit sales were up 17.5% on a like for like basis continuing the strong improvement started in the second half of last year. Used car margins improved and gross profits were also ahead of our expectations.

Aftersales

With annual new car registrations still below pre-recession levels, we have seen a slight increase in the overall size of the 0 to 5 year old car servicing market resulting in a 2.5% increase in like for like aftersales revenues. The action we have taken to enhance our aftersales marketing and retention procedures, together with our improving new and used car sales will help to further accelerate this trend.

Operations and redevelopment

We relocated our Volkswagen business in Worthing to our new 15 car showroom and 12 bay workshop at the beginning of April 2014. This substantial development offers customers significantly greater opportunity to view new and used cars and provides increased aftersales facilities. Initial trading from this new site has been encouraging. The anticipated cost of the development of £4.75m was achieved within budget and on time and will be partially offset, in due course, by the sale of the existing site formerly occupied by Volkswagen in Goring.

In December 2013 we further strengthened our Volkswagen operations by acquiring a freehold property next to our Volkswagen dealership in Eastbourne. This will allow for future growth and it is encouraging to see this dealership produce another strong result. We expect to redevelop this site during the current year incorporating the premises acquired.

The new build showroom and aftersales facilities for our Skoda dealership in Ashford are now complete, on budget, with the business already showing signs of growth in these bigger premises.

In February 2013, we bought a freehold property immediately adjacent to our Land Rover dealership in Lewes. As anticipated, this purchase has brought greater efficiencies to the operation of the site. We have seen a significant improvement in profitability and it has enabled us to vacate the previously leased service facility.

Our Vauxhall business in Ashford has had a good trading year and we are currently updating the showroom and facilities to reflect the new corporate identity. Having relocated the adjacent Skoda business to a new showroom and workshop on the other side of the site, we will have an opportunity in the second half of the current year to further grow the used car activity once the building works are completed.

In Tunbridge Wells we have seen a substantial improvement in results and have begun a programme to update the facilities to reflect the latest corporate identities for the Skoda and Seat franchises.

In Eastbourne we have expanded our Audi used car display area and have begun work to increase the size of the showroom to meet new corporate standards and to cater for increased demand. Work on the showroom began in April and is scheduled to be completed by August 2014. All three Audi businesses showed excellent growth on the previous year.

The new car market continues to be driven by manufacturer offers which are positively impacting our retail sales. While Europe is showing signs of recovery, it is encouraging to see manufacturers continuing to support the UK market. Whilst we expect to experience continued growth in new car sales, we continue to place particular emphasis on increasing our levels of used car sales and customer retention for aftersales business.

* The results for the year to 31 March 2013 have been restated following the implementation of the amended accounting standard IAS 19 "Employee Benefits" with a resultant reduction in reported profit before tax of £400,000. This change is referred to on page 3 in the section on "Pensions".

Groupwide projects

During the year, we continued our focus on improvements in the three key areas of used car sales, used car finance and aftersales. All of these have contributed to the increase in profits. We also are looking to further improve our use of technology to ease the customer's journey, from internet based research to the experience they have when visiting our showrooms.

Property

We operate primarily from freehold properties and our property portfolio provides additional strategic flexibility to our business model. During the year, we incurred capital expenditure of £7.46m (2013: £3.67m) principally on the sites noted above, namely the new Volkswagen site in Worthing (£4.15m spent in the year), the new Skoda dealership in Ashford (£1.1m) and the freehold land purchased in Eastbourne adjacent to our Volkswagen site (£0.88m). The refurbishment of our Volkswagen dealership in Haywards Heath was completed in May 2013, as was the refurbishment of the aftersales facility at our Land Rover dealership in Lewes, following the acquisition of the freehold property in February 2013.

The sale of freehold land in Hailsham for £1.4m is conditional upon an appropriate planning approval, application for which has been submitted. Our freehold property in Upperton Road, Eastbourne has been marketed and an offer accepted, subject to a planning approval. However, contracts have not yet been exchanged. Following the vacation of the former Volkswagen site in Worthing, the site has been marketed and we are currently reviewing our options. We have recently obtained a planning approval for 12 residential units adjacent to our Land Rover dealership in Lewes and marketing has commenced to sell this freehold property. Following the exchange of contracts to sell our freehold property in Folkestone in May 2013, proceeds of £452,000 net of sale costs were received in August 2013.

A valuation of the Company's freehold premises was carried out at 31 March 2014 by chartered surveyors CBRE Limited on the basis of existing use value. The excess of the valuation over net book value of freehold properties, excluding the Group's investment property in Uckfield and the three freehold properties being offered for sale at 31 March 2014, was £6.0m. In accordance with the Group's accounting policies (which reflect those utilised throughout the industry), this surplus has not been incorporated into the Company's accounts.

Bank facilities

In order to assist in the financing of our capital investment programme, the Company entered into a £5m Term Loan with Volkswagen Bank in November 2013. The loan is secured on certain freehold properties and is repayable over 10 years. Our other facilities remain at £18.0m, including facilities from HSBC at £11.0m which incorporate a three year revolving credit facility of £7.5m expiring in April 2015, and a £3.5m overdraft. In addition, we have an overdraft facility of £7.0m provided by Volkswagen Bank. Bank borrowings net of cash balances at 31 March 2014 were £11.93m (2013: £9.85m). Bank borrowings as a proportion of shareholders' funds at 31 March 2014 were 67% (2013: 64%).

Pension Scheme

The Group operates a defined benefit pension scheme which was closed to future accrual in 2010. In common with many companies, the directors have very little control over the key assumptions required by the accounting standards in the valuation calculations. The deficit as at 31 March 2014 reduced to £11.4m (31 March 2013: £13.6m). The deficit, net of deferred tax, at 31 March 2014 was £9.1m (2013: £10.5m) primarily due to lower than expected inflation.

The amended accounting standard IAS 19 has been implemented in the year by replacing the expected return on assets with a return based upon the discount rate. This has given rise to a charge in the year to 31 March 2014 of £600,000. The net credit shown in the Annual Report for the year to 31 March 2013 was £67,000. Following implementation of the revised standard, the charge for that period has been restated to £333,000, reducing profit before tax by £400,000. However, the net actuarial losses in the Consolidated Statement of Comprehensive Income have also reduced by £400,000. Consequently, there are no changes to the balance sheet previously reported. The pension cost under IAS 19, as in the previous year, continues to be charged as a non-underlying cost.

The Pension Scheme Recovery Plan agreed with the trustees requires a cash payment of £358,000 in the year to 31 March 2015 increasing by 3.4% per annum thereafter.

The Board continues to review options, together with the independent pension fund trustees, to reduce the cost of operating the scheme and any actions that could further reduce the deficit over the medium and longer term. Following advice on the investment strategy of the assets, during the year over two-thirds of the assets were reinvested in two Diversified Funds with the intention of improving returns and reducing exposure to risk.

Operational and Business Review

People

During the year we have had less disruption through redevelopment work and I am delighted that we have been able to take advantage of a more stable environment to deliver improved results. The positive approach shown by all employees throughout the Company has been key to this success and I should like to thank them personally for their hard work and enthusiasm.

On 25 September 2013 we announced the appointment of Nigel Gourlay to the Board as an independent non-executive director. Nigel has prior Board experience with Mitsubishi UK and is Chairman of the Audit Committee at Feronia Inc. which is quoted on the TSX-V in Toronto. Andrew Goodburn retired from the Board on 25 October 2013 and I, and other members of the Board, would like to thank him for his valuable contribution over more than nine years' service.

Apprenticeships

At the start of the recession we decided to increase the number of people taken onto our award-winning apprenticeship programme. We have recruited 50 apprentices over the last four years, of which 70% are still with us. We look to recruit further personnel across the Company as we continue to grow.

Dividend

The Board has decided to recommend a final dividend of 12.0p per Ordinary Share (2013: 7.0p). If approved at the Annual General Meeting, this will be paid on 31 July 2014 to shareholders at close of business on 27 June 2014. The shares will be marked ex dividend on 25 June 2014.

Together with the interim dividend of 6.0p per Ordinary Share (2013: 5.0p) paid during the year, the total dividend for the year will be 18.0p per Ordinary Share (2013: 12.0p).

Strategy

Our strategy of focusing on representing premium and premium-volume franchises continues to deliver stronger results. The decision to continue our relationship with Vauxhall at our Ashford dealership has delivered improved profitability in a market suited to the brand.

We continue to invest the proceeds from the sale of properties and closed operations in developing larger business opportunities in stronger markets delivering higher returns on capital. With fewer but bigger sites, we are now more effective in delivering profit improvements.

Our focus on improving operational processes has seen an encouraging increase in used car sales. This, together with used finance and aftersales retention, remains at the centre of our drive to enhance profitability.

Outlook

The growing economy in the UK and improved consumer confidence has led to continued growth of the new car market. There are signs that some European markets are also recovering but manufacturers continue to see opportunities for further growth in the UK and continue to support our market with strong consumer offers. We are also seeing strong and sustained growth in our used car sales and the resultant increase in the size of our overall customer base will generate growth in our aftersales operations.

Our improved profitability combined with our excellent franchise representation in larger and more efficient premises leaves us well placed to take advantage of these improved economic conditions.

S G M Caffyn
Chief Executive
30 May 2014

Strategic Report

Business model

Caffyns is one of the leading motor retail and aftersales companies in the south east of England. The Group's principal activities are the sale and maintenance of motor vehicles including the sale of tyres, oil, parts and accessories. The Operational and Business Review principally covers the development and performance of the business and the external environment and is set out on pages 2 to 4. The main KPIs of the Group are:

Financial	**2013–14**	2012–13*
Revenue	**£193.2m**	£165.0m
Underlying profit before tax	**£2.166m**	£1.218m
Profit before tax	**£1.566m**	£1.122m
Underlying earnings per share	**75.5p**	37.3p
Earnings per share	**51.0p**	35.5p
Net debt	**£11.929m**	£9.846m
Gearing	**67%**	64%

* As restated to reflect the adoption of IAS 19 (2011)

Non-Financial		
UK new car market	**2.35m**	2.09m
Group employees	**400**	425

Business performance

New and Used Cars

Our new unit sales were up by 18.6% on a like for like basis. Over the 12 month period, total UK new car registrations rose by 12.5%. Within this, the private and small business sector in which we operate rose by 17.8% so we again outperformed both the overall UK average and the specific sector in which Caffyns operates. Our premium and premium-volume franchises continue to perform well.

Used car unit sales were up 17.5% on a like for like basis continuing the strong improvement started in the second half of last year. Used car margins improved and gross profits were also ahead of our expectations.

Aftersales

With annual new car registrations still at levels below pre-recession figures, we have seen a slight increase in the overall size of the 0 to 5 year old car servicing market resulting in a 2.5% increase in like for like aftersales revenues. The action we have taken to enhance our aftersales marketing and retention procedures, together with our improving new and used car sales, will help to further accelerate this trend.

Business strategy

The Group has focused on the premium and premium-volume market where it believes that there is greater resilience to delivering stronger sales, profits and returns. It now represents a strong portfolio of eight franchises of Audi, Jaguar (authorised repairer), Land Rover, Seat, Skoda, Vauxhall, Volkswagen and Volvo. The Group generally operates from its own freehold properties which it believes offer better long-term returns and greater flexibility. Proceeds from disposals of properties are generally reinvested in its existing property portfolio. The Group looks to balance the risks of ownership with the risks of leasing.

Principal risks and uncertainties

Risk is an accepted part of doing business and the Group has a risk assessment process that facilitates the identification and mitigation of risk. While the risk factors listed below could cause our actual future results to differ materially from expected results, other factors could also adversely affect the Group and they should therefore not be considered to be a complete set of all potential risks and uncertainties. The risk factors should be considered in connection with the statement on internal control and risk management included in the Chairman's Statement on Corporate Governance on pages 12 to 17. Other financial risk management factors are referred to in notes 15 and 17 to the financial statements.

Principal risks	Potential impact/material risk	Key controls and mitigating factors
Business conditions and the UK economy	The profitability of the Group could be adversely affected by a worsening of general economic conditions in the United Kingdom, where all of its business is transacted, including factors such as interest rates, unemployment, fuel prices, inflation, indirect taxation, the availability and cost of credit and other factors which affect levels of consumer confidence.	Monitoring of key macro economic indicators against internal performance leads to anticipation of, and mitigation for, expected volatilities.
Vehicle manufacturer marketing programmes	Vehicle manufacturers provide a wide variety of marketing programmes which are used to promote new vehicle sales. A withdrawal or reduction in these programmes would have an adverse impact on our business.	By representing multiple marques, the Group believes that this diversity reduces the potential impact on the Group. In addition, the Group continues to develop its own marketing initiatives.
Used car prices	Used car prices can decline significantly. A large proportion of the Group's business comprises used car sales and these declines can have a material impact through reduced profits on sales and write-downs in the value of inventories.	Close monitoring of the ageing of vehicle stocks and a firm policy of stock management help to mitigate this risk. Impact also mitigated by revenue streams balanced between aftersales, new and used car sales.
Vehicle manufacturer dependencies	Caffyns operates franchised motor car dealerships. These franchises are awarded to the Group by the motor car manufacturers. For ongoing business, the Company holds franchise agreements for its dealership operations. These agreements can be terminated by giving two years' notice, or less in the event of a serious unremedied breach including continued under-performance. The Company is not aware of any breach of these agreements or any under-performance giving cause for notice under these agreements	By representing multiple marques, the Group believes that this diversity reduces the potential impact on the Group. Revenue streams from other markets (aftersales and used vehicles) prevent over-reliance on new vehicle sales.

Principal risks	Potential impact/material risk	Key controls and mitigating factors
Liquidity and financing	Liquidity and financing risks relate to our ability to pay for goods and services enabling us to trade. Our principal sources of finance are from our bankers by way of committed borrowing facilities, from manufacturers to fund the purchases of stock and trade credit from our suppliers. A withdrawal of facilities, or failure to renew them when due, could lead to a significant reduction in the trading ability of the Group.	The Group works closely with providers of finance to help reduce this risk by managing expectations of trading results and utilisation of facilities. The status of the Group's bank facilities is set out in note 17.
Regulatory compliance	The Group is subject to regulatory compliance risk which could arise from a failure to comply fully with the laws, regulations or codes applicable. Non-compliance could lead to fines, cessation of certain business activities or public reprimand.	Understanding of the direction of new regulatory policy is gained through close contact with relevant trade and representative bodies and these are carefully considered when developing strategy.
Information systems	The Group is dependent upon certain business critical systems which, if interrupted for any length of time, could have a material effect on the efficient running of the Group's businesses.	The Board has implemented a series of contingency plans which would enable the Group to resume operations within a short space of time, thus mitigating the likelihood of material loss.
Competition	Caffyns competes with other franchised vehicle dealerships, private buyers and sellers, internet based dealers, independent service and repair shops and manufacturers who have entered the retail market. The sale of new and used vehicles, the performance of warranty repairs, routine maintenance business and the supply of spare parts operate in highly competitive markets. The principal competitive factors are price, customer service and knowledge of a manufacturer's brands and models. We also compete with funders who finance customers' vehicle purchases directly.	To mitigate this risk, we regularly monitor our competitors' activities and seek to price our products competitively, optimise customer service, efficiently utilise our customer database and fully understand our manufacturers' brands and products.

Principal risks	Potential impact/material risk	Key controls and mitigating factors
Changes in EU legislation in relation to the distribution and sale of vehicles	The franchise agreement legislation for the automotive sector changed in June 2013. Aftersales agreements continue to be legislated by a Block Exemption, dictating that aftersales businesses meeting manufacturers' qualitative standards criteria have an entitlement to represent the brand's aftersales service and parts franchise. Sales agreements are granted by car manufacturers based on standards, but agreements are restricted to territories granted by manufacturers, who also determine choice of partner, enabling them to restrict the number of outlets any dealer can hold or entry into the franchise.	By continuing to focus on providing excellent customer facilities, excellent customer service and providing high level representation for the Group's manufacturer partners, current business relationships will be maintained, providing opportunities for selective growth.
Pension scheme	The Group operates a defined benefit pension plan which was closed to new entrants in 2006 and closed to future accrual with effect from 1 April 2010. The plan relies upon achieving satisfactory investment returns sufficient to meet the present value of the accrued liabilities. Reduced investment returns or higher liabilities due to increased mortality rates and/or continuing record low interest rates could adversely affect the surplus or deficit of the scheme and may result in increased cash contributions in future.	The Company regularly reviews the position of the defined benefit pension plan through regular meetings of a Pensions Sub-Committee, chaired by the Chairman of the Audit Committee. Through this sub-committee, the Company has an ongoing review of possible options to mitigate the risk of underlying volatility causing an increase in the deficit.

Corporate Social responsibility, Human Rights and Diversity

The Group has a long-standing Corporate Social responsibility agenda including Health and Safety (page 10), the environment (page 10), its approach to employees (page 9). We are also conscious of human rights issues within the Company through our supply chain which is predominantly the major international motor manufacturers who take these issues very seriously as well.

The UK Corporate Governance Code includes a recommendation that boards should consider the benefits of diversity, including gender, when making Board appointments. The Board recognises the importance of gender balance and that the important requirement to ensure that there is an appropriate range of experience, balance of skills and background on the Board. We will continue to make changes to the composition of the Board irrespective of gender or any form of discrimination so that the best candidate is appointed.

The table below gives the numbers of Group employees in each category, by gender, as of 31 March 2014.

	Female	Male	Total
Director	1	5	6
Senior management	2	13	15
All other employees	93	312	405

Employees

We recognise that our people are our key asset that allows us to deliver our strategy and we continue to invest in an enhanced training and development programme, with particular support from our manufacturer partners.

During the year we have had less disruption through redevelopment work and we have been able to take advantage of a more stable environment to deliver improved results. The positive approach shown by all employees throughout the Company has been key to this success.

Employees are encouraged to discuss with management any matters which they are concerned about and factors affecting the Group. In addition, the Board takes account of employees' interests when making decisions. The Group has an HR Director, Sarah Caffyn. Suggestions from employees aimed at improving the Group's performance are welcomed.

A significant number of employees are remunerated partly by profit-related bonus schemes.

The Group has a dedicated "Intranet" which keeps employees up to date with Group developments and activities. Long service awards were made during the year to those staff with 25 years' continuous service. This platform also includes the Group's policies and procedures.

All employment policies have been updated to conform with current legislation.

It is the Group's policy to encourage career development for all employees and to help staff achieve job satisfaction and increase personal motivation.

The Company supports the recruitment of disabled people wherever possible. Priority is given to those who become disabled during their employment. Employment within the Group is offered on the basis of the person's ability to work and not on the basis of race, individual characteristics or political opinion.

At the start of the recession we decided to increase the numbers on our apprenticeship programme and we are now seeing the benefits as we see encouraging signs of growth in the economy. We look to further recruit both apprentices and others across the Company as we continue to grow.

Environment

The Company is aware of its environmental responsibilities arising from its motor retailing and aftersales activities and recognises that some of its activities affect the environment. The Company's Health and Safety Officer has received formal training in environmental management and is appropriately qualified in this field. The Company's policy is to promote and operate processes and procedures which, so far as is reasonably practicable, avoid or minimise the contamination of water, air or the ground. Licences are obtained from the relevant authorities where required to operate certain elements of the Company's business. Waste is disposed of by authorised contractors and is recycled where possible. Special care is taken in the storage of fuel and oils. Through the management of these activities, the Company seeks to minimise any adverse effects of its activities on the environment.

The Group aims to encourage the reduction of energy and water consumption and audit processes are in place to measure usage and make recommendations for improvements. An electrical test monitoring regime is in force throughout the Group. Use of the latest building materials is made in the construction of new sites and the refurbishment of existing locations. For instance, water recycling units were installed during the last major refurbishment undertaken by the Company.

Greenhouse gas emissions

The Company is aware of, and supports, the new carbon reporting requirements. In the year to 31 December 2013, the latest annual period for which data is available, the Company emitted 1,775.0 tonnes of carbon dioxide or CO_2. Our emissions are principally of carbon dioxide (CO_2) and emanate from our facilities. Our intensity ratio (tonnes of CO_2 per £k of revenue) is £104.9k per tonne. Since the Group has not previously reported on emissions, there is no prior year data with which to compare our latest year's data. It is our intention to use the current year's data as the baseline for future reporting periods.

During the year we have continued to assess and monitor our energy use and, where practicable, to implement measures designed to reduce our activities' environmental impact, one effect of which over time will be to reduce our carbon footprint. We continue, where practicable, to install LED lights in our sites; these use significantly less energy than conventional lighting. We also install, for example at our new Volkswagen dealership in Worthing, PV cells to generate electricity on site. In addition, other simple measures continue to improve our heating energy use and efficiency, such as ensuring workshop doors are closed when not in use or fitted with insulators. We seek to limit our paper consumption and waste through increasingly paperless communications and systems. Water use in valeting areas uses recycling facilities, where practicable, and all sites have appropriate water filtration systems.

Health and safety

The Company recognises its responsibility to members of staff and others working or visiting its facilities to provide, so far as is reasonably practicable, an environment which is safe and without risk to their health. The Board maintains ultimate responsibility for health and safety issues with a qualified Health and Safety Officer responsible on a day-to-day basis, supported by all levels of management. The Company's policy is to identify potential hazards and assess the risks presented by its activities and to provide systems and procedures which allow staff to take responsible decisions in their work in relation to their own and others' safety. The Company promotes awareness of potential risks and hazards and implementation of corresponding preventative or remedial actions through its online health and safety systems, operations manuals and monthly communication on topical issues. With clear lines of operating unit responsibility, staff are supported by specialist guidance from the Company's Health and Safety Officer. All of the Company's staff have access to a detailed health and safety guide.

By Order of the Board

S G M Caffyn
Chief Executive
30 May 2014

Board of Directors

Honorary President	ALAN M CAFFYN DL C ENG MI MechE FIMI
Directors	RICHARD C WRIGHT PG Dip FIMI FCIM *Chairman*
	SIMON G M CAFFYN MA FIMI *Chief Executive*
	MARK S HARRISON FCA FIMI *Finance*
	SARAH J CAFFYN BSc FCIPD AICSA FIMI *Human Resources*
	NICHOLAS W HOLLINGWORTH BSc Non-executive and Senior Independent Director
	NIGEL T GOURLAY BSc FCA *Non-executive*
Bankers	HSBC BANK plc Global House, High Street, Crawley, RH10 1DL
	VOLKSWAGEN BANK Brunswick Court, Yeomans Drive, Blakelands, Milton Keynes, MK14 5LR
Independent Auditor	GRANT THORNTON UK LLP Statutory Auditor, Chartered Accountants Grant Thornton House, Melton Street, Euston Square, London, NW1 2EP
Company Secretary	SARAH J CAFFYN BSc FCIPD AICSA FIMI
Registered Office	4 Meads Road, Eastbourne, East Sussex, BN20 7DR Telephone (01323) 730201

Chairman's Statement on Corporate Governance

Caffyns plc is committed to maintaining the highest standards of corporate governance. This Report and the Directors' Remuneration Report describe how it complies with the provisions of the UK Corporate Governance Code 2012 ("the Code").

The Company has complied throughout the year ended 31 March 2014 with the provisions set out in the Code except that one director has a service contract which runs for more than 12 months which does not comply with Code provision D.1.5 (see Directors' Remuneration Report) which recommends that such periods should be for one year or less. The Remuneration Committee has reviewed the position and decided that it was not in the best interests of the Company to change the existing contract. In addition, Mr A R Goodburn had served nine years as a non-executive director with effect from 2 February 2013. While the Board considers Mr N W Hollingworth to be independent throughout the year, Mr A R Goodburn was deemed not to be independent after 2 February 2013 until his retirement on 25 October 2013 in accordance with Code provision B.1.1. A further independent non-executive director, Mr N T Gourlay, was appointed on 25 September 2013.

STRUCTURE OF THE BOARD AND ITS KEY ACTIVITIES

The Board is collectively responsible for the long-term success of the Company and for ensuring the Company operates to a governance standard which serves the best interests of the Company. The Board sets the strategy of the Company and its individual trading businesses and ensures that the Company has in place the financial and human resources it needs to meet its objectives. There is a written schedule of matters reserved for Board decision, summarised below:

Schedule of matters reserved for decision by the Board

- Business strategy
- Approval of significant capital projects and investments
- Principal terms of agreements for the Group's principal banking facilities
- Annual business plan and budget monitoring
- Risk management strategy and internal control and governance arrangements
- Approval of acquisitions and divestments
- Changes to the Group's management and control structure
- Significant changes to accounting policies or practices
- Financial reporting to shareholders
- Dividend policy
- Health and safety policy
- Changes in employee share incentives
- Reviewing the Group's overall corporate governance arrangements
- Appointments to the Board and its committees
- Policies relating to directors' remuneration and service
- Prosecution, defence or settlement of material litigation
- Any alterations to the share capital of the Company
- Approval of all circulars and announcements to shareholders
- Major changes to the Company's pension schemes
- Insurance cover including directors' and officers' liability insurance and indemnification of directors

The Chairman takes responsibility for ensuring that the directors receive accurate, timely and clear information. Monthly financial information is provided to the directors. Regular and ad hoc reports and presentations are circulated, with all Board and committee papers being issued in advance of meetings by the Company Secretary. In addition to formal Board meetings, the Chairman maintains regular contact with the Chief Executive and other directors to discuss specific issues. In furtherance of their duties, the directors have full access to the Company Secretary and may take independent professional advice at the Company's expense. The Board believes that, given the experience and skills of its directors, the identification of training needs is best left to the individual's discretion. If any particular development need is identified through the Board's formal appraisal process or by an individual director, the Company makes the necessary resources available.

Operating within prescribed delegated authority, such as capital expenditure limits, the operational running of the Company and its businesses is carried out by the executive directors, led by the Chief Executive.

The Board delegates certain of its duties to its Audit, Nomination and Remuneration Committees, each of which operates within prescribed terms of reference. These are set out on the Company's website. The responsibilities of the Board's committees are set out on pages 14 to 17 of this Report and in the Directors' Remuneration Report.

The Board has evaluated the performance of its committees for the year under review. The Chairman and the respective committee chairmen take responsibility for carrying out any actions recommended as a result of that evaluation.

Performance evaluation

The Board has established a procedure to evaluate its own performance, its committees and individual directors. The directors completed detailed questionnaires and debated the matters arising at Board meetings.

Individual director evaluation showed that each director (including those seeking re-election at the Annual General Meeting in 2014) continues to demonstrate commitment to the role. The non-executive directors, led by the senior independent director, carried out a performance evaluation of the Chairman after taking account of the views of the executive directors. The Chairman has reviewed the performance of the non-executive directors and the Chief Executive. The Chief Executive has reviewed the other executive directors. The Board intends to carry out further performance evaluations but will keep under review the method and frequency.

The latest Board evaluation process concluded that the Board and its committees were operating effectively, with clear demarcation of the respective responsibilities of individual directors and Board committees. The Board is satisfied that all directors are each able to devote the amount of time required to attend to the Company's affairs and his duties as a Board member. The Chairman regularly reviews the training and development needs of each director.

Board composition and independence

As at 30 May 2014 the Board comprises three executive directors and three non-executive directors, one of whom is the Chairman. Mr R C Wright is the non-executive Chairman and Mr S G M Caffyn is the Chief Executive. The Chairman leads the Board and the Chief Executive manages the Group and implements the strategy and policies adopted by the Board. There is a clear division of responsibility between the role of the non-executive Chairman and Chief Executive and this is recorded in a written statement and is reviewed and agreed annually by the Board. The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role.

The Company maintains appropriate directors' and officers' insurance in respect of legal action against its directors.

Directors' conflicts of interest

Conflicts of interest can include situations where a director has an interest that directly or indirectly conflicts, or may possibly conflict, with the interests of the Company. The Board operates a formal system for directors to declare at all Board meetings all conflicts of interest. The non-conflicted directors must act in the way they consider, in good faith, would be most likely to promote the success of the Company.

Balance and independence

The non-executive directors complement the skills and experience of the executive directors, providing the requisite degree of independent judgement and scrutiny to the decision-making process at Board and committee level. The non-executive directors, including the Chairman, are determined by the Board to be independent. Mr N W Hollingworth is the senior independent director.

The Board maintains and regularly reviews a register of all interests, offices and appointments which are material to be considered in the assessment of the independence of directors and has concluded that there are not, in relation to any director, any relationships or circumstances regarded by the Company as affecting their exercising independent judgement.

Re-election of directors

In accordance with the Company's Articles of Association, all directors seek re-election by rotation at least once in every three years.

Meetings and attendance

There were eight meetings of the Board in the year under review and all meetings were attended by all directors eligible to attend other than two meetings at which Miss S J Caffyn was unable to attend.

Nomination Committee

Our Nomination Committee comprises two non-executive directors, the non-executive Chairman and the Chief Executive. The members are:

R C Wright (Chairman)
N W Hollingworth
N T Gourlay
S G M Caffyn

The Nomination Committee is responsible for leading the process for appointments to the Board and meets at least once a year.

The Committee is chaired by Mr R Wright and the Company Secretary also attends meetings in her capacity as secretary of the Committee. Where the matters discussed relate to the Chairman, such as in the case of selection and appointment of the Company Chairman, the senior independent director chairs the Committee. New directors receive a full, formal and tailored induction on joining the Board. The principal responsibilities of the Committee are as follows:

- regularly reviews the structure, size and composition of the Board and makes recommendations to the Board with regard to any adjustments deemed appropriate;
- prepares the description of the role and capabilities required for a particular Board appointment and it may retain appropriate executive search consultants to assist in this process;
- identifies, and nominates for the approval of the Board, candidates to fill Board vacancies as and when they arise;
- satisfies itself, with regard to succession planning, that processes are in place with regard to both Board and senior appointments; and
- undertakes an annual performance evaluation to ensure that all members of the Board have devoted sufficient time to their duties.

The Committee met twice during the year and all members eligible to attend were present. One meeting was directly concerned with the appointment of a new non-executive director to replace Mr A R Goodburn. Having taken the views of its professional advisors, a job specification for the role was prepared and external executive search consultants, Hanson Green, assisted in the selection process. The other meeting was the normal annual meeting of the committee.

Audit Committee

Our Audit Committee comprises two non-executive directors and the Chairman. The members are:

N T Gourlay (Chairman)
N W Hollingworth
R C Wright

The Committee is chaired by Mr N T Gourlay, succeeding the former Chairman of the Committee, Mr A R Goodburn, on 25 October 2013 and the Company Secretary also attends meetings in her capacity as Secretary of the Committee. The Chairman of the Committee is considered by the Board as having recent and relevant financial experience. The Audit Committee meets at least three times a year. The meetings are attended, by invitation, by the executive directors, the head of the internal audit function and representatives of the Company's external auditor, at the Chairman's discretion.

The Committee's meetings in quarters one and three coincide with the Company's reporting timetable for its audited financial statements and unaudited interim condensed financial statements respectively. During these meetings the committee:

- reviews the drafts of the financial statements and preliminary and interim results announcements;
- reviews all published accounts (including interim reports) and post-audit findings before their presentation to the Board, focusing in particular on accounting policies, compliance, management judgement and estimates; and
- considers the reports of the external auditor on the unaudited interim condensed financial statements and the full year audited financial statements.

The Committee's third meeting is primarily concerned with:

- reviewing the Company's systems of control and their effectiveness;
- significant corporate governance issues such as those relating to the regulation of financial services;
- reviewing the external auditor's performance;
- recommending to the Board the reappointment, or not, of the external auditor; and
- reviewing the audit fee.

The committee met three times in the year under review and all members eligible to attend were present. It has reviewed the effectiveness of the Company's system of internal control and financial risk management during the year ended 31 March 2014, including the review of the Company's risk register, and including consideration of reports from both the internal and external auditors. The Audit Committee has reported the results of its work to the Board and the Board has considered these reports when reviewing the effectiveness of the Group's system of internal control, which forms part of the Board's high level risk review performed during the year. The effectiveness of the internal audit function is also monitored.

The Audit Committee provide advice to the Board on whether the annual report is fair, balanced and provides the necessary information shareholders require to assess the Company's performance, business model and strategy. In doing so the following issues have been addressed specifically:

- Review of key strategic risks – the Committee Chairman conducts an annual review of key strategic risks and undertakes site visits in order to ensure that the review includes a detailed understanding of the business. The review highlights the key risks based on a combination of likelihood and impact and then also considers what appropriate mitigants should be implemented (highlights from this work are included in the Strategic Report).
- Review of poor performing dealerships – as part of both the interim and full year end review process, consideration is given to potential goodwill and property, plant and equipment impairments relating to poor performing locations and any related impairments are provided for. Management will then follow up with detailed action plans to either improve dealership performance or seek an exit solution. The Audit Committee also review progress towards these plans at the following review. The Audit Committee is satisfied that no impairments are required.
- Going concern – the Finance Director provides an assessment of the Company's ability to continue to trade on a going concern basis for at least the next 12 months. Forecasts are based on financial plans agreed with the Board (budgets or forecasts), the Company's most recent trading results, and also include a range of possible downside scenarios. The assumptions that underpin the assessments are considered and discussed in detail when the Audit Committee meets. The conclusion of that review is included in the Directors' Report section of this report.
- Inventory valuation – the value of new and used vehicles as well as the provision for slow-moving and obsolete stock can have a significant influence on the inventory valuation in the financial statements. The Audit Committee has considered the Company's procedures and controls, which are satisfactory, to reduce the risk of misstatement in relation to inventory valuation.
- Pensions – the Group operates a defined benefit pension scheme, closed to future accrual, which has an excess of liabilities over the value of assets owned by each scheme. The assessment of the valuation of the scheme is based on several key assumptions which can have a significant impact on the valuation of the deficit. The Audit Committee has considered the assumptions used for the valuation of the liabilities of the scheme and is satisfied that these are reasonable.

Anti-Bribery

During the year, as well as its routine business, the Audit Committee has assessed the suitability of the Company's controls designed to combat bribery, in order to satisfy itself of the adequacy of the Company's systems and procedures for the prevention of bribery and corruption, particularly in the light of the Bribery Act 2010. It has reviewed and recommended the Board adopt the Company's Anti-Bribery policy statement.

Chairman's Statement on Corporate Governance

Whistleblowing

The Audit Committee has reviewed the Company's arrangements for its employees to raise, in confidence, concerns about possible improprieties in relation to financial reporting, suspected fraud and dishonest acts or other similar matters, commonly known as "whistleblowing". The committee reviews any such reported incidences and any improvements to Company procedures that may be required.

Non-audit services provided by the external auditor

Non-audit services provided by the Company's auditor are kept under review by the Audit Committee. These will generally be other compliance services in the field of taxation advice. The Audit Committee ensures that the auditor's objectivity and independence are safeguarded through the use of separate teams of staff and by ensuring that the level of fees is not material to either the Group or the auditors. The report from Grant Thornton UK LLP confirming their independence and objectivity was reviewed by the Chairman of the Audit Committee and the Finance Director. The level of fees paid to Grant Thornton UK LLP for non-audit services is not regarded to be in conflict with auditor independence.

Effectiveness and independence of external auditor

Grant Thornton UK LLP has been external auditor since 1964. As part of this year's decision to recommend the reappointment of the auditor, the Audit Committee has taken into account the tenure of the auditor and the need to consider at least every five years whether there should be a full tender process. There are no contractual obligations that act to restrict the Audit Committee's choice of external auditor.

The Audit Committee is also responsible for advising the Board on the appointment of the auditor, assessing their independence and formulating policy on the award of non-audit work. Non-audit work is only awarded to the auditors after due consideration of matters of objectivity, independence, costs, quality of service and efficiency. As a consequence of its satisfaction with the results of its review of the activities outlined above, the Audit Committee has recommended to the Board that the external auditors are reappointed.

At the conclusion of each year's audit, the performance of the external auditor is reviewed by the Committee with the executive directors covering such areas as quality of audit team, business understanding, audit approach and management. Where appropriate, actions are agreed against the points raised and subsequently monitored for progress.

Tax strategy and objective

As a reasonable taxpayer, the Group is committed to establishing, maintaining and monitoring the implementation of an appropriate tax strategy. Our tax strategy is aligned with our objective of paying the correct amount of tax at the right time. Commercial transactions are therefore structured in the most tax efficient way but without resorting to artificial arrangements which we regard as abusive. There is an ethical dimension to achieving this objective. The ethical dimension reflects the need to mitigate the risk to the Company's reputation which would arise from a tax strategy that entails aggressive tax planning.

Risk management and internal controls

The Board is responsible for maintaining a sound system of internal controls, including financial, operational and compliance controls and risk management, and reviews the effectiveness of the system at least annually in order to safeguard shareholders' investment and the Group's assets. The system is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group that has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, and that this process is regularly reviewed by the Board.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Management are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are assessed on a regular basis and may be associated with a variety of internal or external sources including control breakdowns, disruption in information systems, competition, natural catastrophe, customer or supplier actions and regulatory requirements.

The process used by the Board is to review the effectiveness of the system of internal control including a review of legal compliance, health and safety and environmental issues on a six-monthly basis. Insurance and risk management and treasury issues are reviewed annually or more frequently if necessary. In addition, the Audit Committee reviews the scope of audits, the half yearly and annual financial statements (including compliance with legal and regulatory requirements) and reports to the Board on financial issues raised by both the internal and external audit reports. Financial control is exercised through an organisation structure which has clear management responsibilities with segregation of duties, authorisation procedures and appropriate information systems. The system of annual budgeting with monthly reporting and comparisons to budget is a key control over the business and in the preparation of consolidated accounts.

There is an ongoing programme of internal audit visits to monitor financial and operational controls throughout the Group. The executive directors receive regular reports from the internal audit and health and safety monitoring functions which include recommendations for improvement.

Relations with shareholders

The Board values the constructive views of its shareholders and recognises their interest in the Group's strategy and performance, Board membership and quality of management. The views of major shareholders are reported back to the Board as appropriate. The non-executive directors have also attended a number of meetings with major shareholders. The principal methods of communication with private investors are the Interim Statement, the Annual Report and the Annual General Meeting. Information on the Company is also included on its website at www.caffynsplc.co.uk.

The Annual General Meeting is used to communicate with investors and they are encouraged to participate. The chairmen of the Audit, Remuneration and Nominations Committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and financial statements. The Company counts all proxy votes and, after it has been dealt with by a show of hands, will indicate the level of proxies lodged on each resolution.

Approved by order of the Board

R C Wright
Chairman
30 May 2014

Directors' Remuneration Report

Annual Statement from the Chairman of the Remuneration Committee

Introduction

On behalf of your Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 March 2014. This Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee (the Committee) in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 and is split into two sections:

- the directors' remunerations policy sets out the Company's intended policy on directors' remunerations from 25 July 2014 and is subject to a binding shareholder vote at this year's AGM and at least every third year after that; 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 2013–14 and is subject to an advisory shareholder vote at this year's AGM.

The information set out on pages 18 to 30 (the annual report on remuneration) is subject to audit apart from the performance graph and table, the change in remuneration of the Chief Executive, the relative importance of the spend on pay, the implementation of remuneration policy in 2014, the considerations by the directors of matters relating to directors' remuneration and the statement of shareholder voting at the 2014 AGM.

Remunerations Outcomes for 2013–14

Annual bonus opportunities are based on the achievement of profit before tax targets. Bonuses of 100% of eligible salary have been awarded to the executive directors in respect of 2013–14, which reflects the exceptional financial results of the Company for the year.

Key Remuneration Decisions for 2014–15

The base salaries for the executive directors were increased by 3.0% with effect from 1 April 2014. Salaries for all employees were increased by a maximum of 3.0% with effect from 1 April 2014.

Conclusion

The directors' remunerations 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 31 March 2014.

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 directors' remuneration policy and the annual report on remuneration.

By Order of the Board

N W Hollingworth
Chairman of the Remuneration Committe
30 May 2014

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 to attract, retain and motivate individuals of the calibre required to ensure that the Group is managed successfully in the interests of shareholders. In addition, the Committee's policy is that a substantial proportion of the remuneration of the executive directors should be performance related.

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
Base Salary			
Provide competitive remuneration that will attract and retain high calibre executive directors to deliver strategy.	Reviewed annually effective from 1 April to reflect role, responsibility and performance of the individual and the Company, and to take into account rates of pay for comparable roles in similar companies. Paid in 12 equal monthly instalments during the year. When selecting comparators, the Committee has regard to the Group's revenue, market worth and business sector.	Executive directors awarded 3% increase from 1 April 2014. There is no prescribed maximum increase. Annual rate set out in the annual report on remuneration for the current year and the following year.	The Committee considers individual salaries at the appropriate Committee meeting each year taking due account of the factors noted in the operation of the salary policy.
Benefits			
Provide market competitive benefits consistent with role.	Currently these consist of provision of Company cars, health insurance, business related subscriptions and the opportunity to join the Company's savings related share option scheme ("SAYE").	The cost of providing benefits is borne by the Company and varies from time to time.	No changes.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Annual Bonus			
Incentivises achievement of business objectives by providing a reward for performance against annual targets.	Paid in cash after the end of the financial year to which it relates.	Up to 100% of salary.	Targets based on underlying profit before tax of the Company. The Committee sets threshold and maximum targets on an annual basis. In general: • a percentage of the maximum bonus is payable for hitting the threshold target. • 100% of the maximum bonus is payable for meeting or exceeding the maximum target. A sliding scale operates between threshold and maximum performance. No bonus is payable where performance is below the threshold. Payment of any bonus is subject to the overriding discretion of the Committee.
Long-term incentives			
Alignment of interests with shareholders by providing long-term incentives delivered in the form of shares.	Directors are able to apply for maximum entitlement under the rules of the Company's SAYE scheme.	See page 27 for details.	Not applicable.
Pension			
Attract and retain executive directors for the long term by providing funding for retirement.	Executive directors are eligible to join the Company's staff pension scheme on the same terms as staff generally. In accordance with the rules of the Company pension scheme, applicable to all members of the scheme, bonuses are pensionable. As a result of the changes in pensions' legislation effective from 6 April 2006, during the year the Company has paid a salary supplement to the executive directors in lieu of the employers' contribution to the Company's pension scheme.	3% of base salary plus bonus.	Not applicable.

Notes to the Policy Table

Performance conditions

The Committee selected the performance conditions as they are central to the Company's strategy and are the key metrics used by the executive directors to oversee the operation of the business. The performance targets for the annual bonus are determined annually by the Committee.

The performance target for the annual bonus is based on underlying profit before tax as set out in the Income Statement on page 40. The Committee is of the opinion that this performance target is commercially sensitive for the Company and that it would therefore be detrimental to the Company to disclose details of the target in advance. The targets will be disclosed after the end of the financial year in the annual report on remuneration.

Changes from policy operating in the year ended 31 March 2014

There were no changes to policy arising in the year.

Differences from remuneration policy for all employees

All employees of the Company are entitled to base salary and benefits. The opportunity to earn a bonus is made available to a high proportion of employees. The maximum opportunity available is based on the seniority and responsibility of the role.

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

The Committee receives reports on an annual basis on the level of pay rises awarded across the Group and takes these into account when determining salary increases for executive directors. In addition, the Committee receives 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 does not specifically invite employees to comment on the directors' remuneration policy, but it does take note of any comments made by employees.

Statement of consideration of shareholder views

The Board considers shareholder feedback received in relation to the AGM each year and any action is built into the Committee's business for the ensuing period. This, and any additional feedback received from shareholders from time to time, is considered by the Committee and as part of the Company's annual review of Remuneration Policy.

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 remunerations package would include the same elements and be in line with the policy table set out earlier in the directors' remuneration policy, including the same limits on performance related remuneration.

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

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

Directors' Remuneration Report

Directors' service contracts, notice periods and termination payments

Provision	Policy	Details	Contractual provisions on a change of control of the Company	Other provisions in specific service contracts
Notice periods in executive directors' service contracts.	12 months by executive director and the Company.	Executive directors may be required to work during the notice period.	12 months by executive director and the Company.	S G M Caffyn may give six months' notice and is entitled to an unreduced early retirement pension.
Compensation for loss of office.	No more than 12 months' basic salary, bonus and benefits (including Company pension contributions).	None.	None apart from Chief Executive.	Termination payment to SGM Caffyn following a change of control comprises cash amount equal to two years' basic salary, bonus 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) a pro-rated bonus to the end of the notice period is also payable.	None.	None.	None.
Treatment of unvested SAYE options	Good leavers may exercise their options within six months of cessation (one year for death). Options of leavers for fraud, dishonesty or misconduct lapse. Options of other leavers may be exercised within six months of cessation, but only to the extent that they would ordinarily become vested during that time. There is no discretion to treat any such leaver as a "good leaver".	Other than death, Good leaver circumstances comprise, injury, disability, redundancy, retirement or transfer of employing business outside the Group. The number of options that can be exercised is reduced pro-rata to reflect the proportion of the vesting period before cessation.	The number of options that can be exercised is reduced pro-rata to reflect the proportion of the vesting period before cessation.	Not applicable.

Provision	Policy	Details	Contractual provisions on a change of control of the Company	Other provisions in specific service contracts
Exercise of discretion.	Intended only to be relied upon to provide flexibility in unusual 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.	Not applicable.	Not applicable.
Outside appointments.	Subject to approval.	Board approval must be sought.	Not applicable.	Not applicable.
Non-executive directors.	Appointed for three year terms.	Six months' compensation payable if required to stand down.	Not applicable.	Not applicable.

In the event of the negotiation of a compromise or settlement agreement between the Company and the 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 repatriation costs or 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.

Service contracts

Executive directors are appointed under rolling service contracts, whereas non-executive directors each have a fixed-term appointment of three years renewable upon expiry, at the Company's discretion. When considering the reappointment of a non-executive director, the Board reviews their attendance at, and participation in, meetings and his overall performance, and also takes into account the balance of skills and experience of the Board as a whole.

Director	Commencement	Expiry	Unexpired term at date of report (months)
R C Wright	1 November 2011	31 October 2014	7
N W Hollingworth	1 February 2014	31 January 2017	34
N T Gourlay	26 September 2013	25 September 2016	30

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

Fees from external directorships

None of the executive directors holds office as a non-executive director of other companies other than in a voluntary or honorary (that is, unpaid) capacity. Accordingly, the Company does not have a formal policy on whether or not an executive director may keep fees gained from holding an external non-executive directorship. This would be decided on a case by case basis.

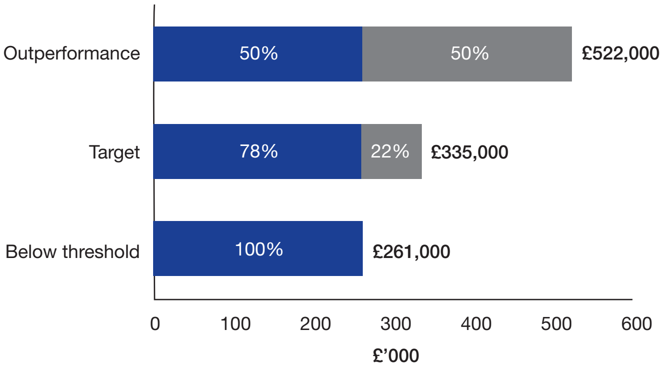
Directors' Remuneration Report

Total Remuneration Opportunity for 2014–15

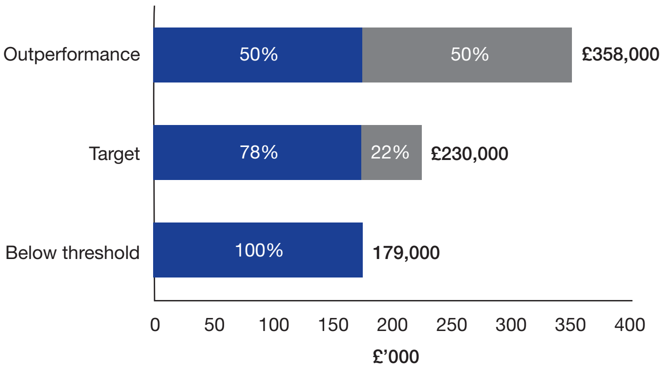
The chart below illustrates the remuneration that would be paid to each of the Executive Directors under three different performance scenarios: (i) Below threshold; (ii) On Target; and (iii) Outperformance.

The elements of remuneration have been categorised into two components: (i) Fixed; and (ii) Annual variable (annual bonus awards).

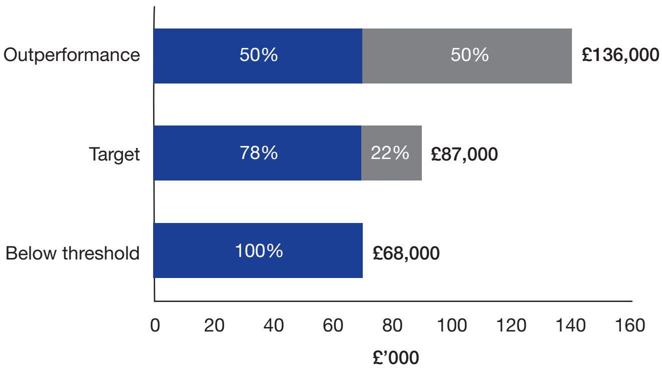
S G M Caffyn



M S Harrison



S J Caffyn



■ Fixed ■ Annual Bonus

Each element of remunerations is defined in the table below:

Element	Description
Fixed	Base salary for 2014–15
Annual bonus	Annual bonus awards

The on-target scenario assumes that for the annual bonus, underlying profit is in line with budget.

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 schemes and they are not eligible for pension arrangements.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Non-executive director fees			
To attract NEDs who have 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. Paid in 12 equal monthly instalments during the year.	Reviewed annually to reflect the role, responsibility and performance of the individual and the Company. Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase.	None.

Single total figure of remuneration for 2013–14

The following table shows a single total figure of remuneration in respect of qualifying services for the 2013–14 financial year for each director, together with comparative figures for 2012–13. The information provided in this part of the Directors' Remuneration Report is subject to audit.

	Salary and fees £000		Benefits £000		Annual bonus £000		In lieu of pension contributions £000		Total £000	
	2013–14	2012–13	**2013–14**	2012–13	**2013–14**	2012–13	**2013–14**	2012–13	**2013–14**	2012–13
Executive directors										
S G M Caffyn	254	249	12	12	253	12	15	7	534	280
M S Harrison	174	170	14	11	173	9	9	4	370	194
G J Ainsley**	—	85	—	6	—	—	—	3*	—	94
S J Caffyn	76	81	4	4	37	2	3	2	120	89
Total	**504**	585	**30**	33	**463**	23	**27**	16	**1,024**	657
Non-executive directors										
R C Wright	56	43	—	—	—	—	—	—	56	43
S B Birkenhead	—	18		—	—	—	—	—	—	18
N W Hollingworth	26	20	—	—	—	—	—	—	26	20
A R Goodburn	15	20	—	—	—	—	—	—	15	20
N T Gourlay	13	—	—	—	—	—	—	—	13	—
Total	**110**	101	**—**	—	**—**	—	**—**	—	**110**	101
Aggregate directors' emoluments	**614**	686	**30**	33	**463**	23	**27**	16	**1,134**	758

* The payment of £3k in respect of G J Ainsley was a pension contribution

** See note on "Payments for loss of office" below.

Payments for loss of office

G J Ainsley received compensation for loss of office in 2012–13 of £130,000. Total directors' remuneration for that year, as previously reported, was therefore £888,000.

Annual bonus

Bonuses are earned by reference to the financial year and paid in May following the end of the financial year. The bonuses accruing to the executive directors in respect of the year ended 31 March 2014 are shown below:

					Bonus value as % of salary					
					S G M Caffyn		M S Harrison		S J Caffyn	
	Threshold	Target	Maximum	Actual performance	Max	Actual	Max	Actual	Max	Actual
Underlying profit before tax*	£1.20m	£1.5m	£2.10m	£2.17m	100%	100%	100%	100%	100%	49%
Bonus receivable	10%	40%	100%	100%	£253,623		£173,400		£37,179	

* The underlying profit before tax is after taking into account the cost of such bonus including employers NI and contributions in lieu of pension contributions.

Miss S J Caffyn was absent for half of the year.

Pension entitlements and cash allowances

Three executive directors are deferred members of the Company's closed defined benefit pension scheme ("the DB Scheme") at the year-end (2013: three). Executive directors' pensions are provided by the DB Scheme, which provides a pension of a maximum of two-thirds of final salary in respect of benefits accrued up to 31 March 2006. With effect from 1 April 2006, the accrued benefits of these directors will be on a "career average" basis and based upon earnings in each financial year. There is a widow's pension of half the director's pension and a death in service benefit of three times salary. The DB Scheme closed to future accrual with effect from 1 April 2010.

The executive directors who are members of the DB Scheme are eligible for a pension of up to two-thirds of total salary excluding benefits at normal retirement age of 65. Pensions for executives are provided on a contributory basis through the Group pension scheme. The value of share options or other benefits does not form part of pensionable salary. The pension scheme provides for the payment of benefits on death or disability. The following pension benefits accrued to directors from the Company:

	Normal Retirement date	**Total annual accrued pension at 31 March 2014 £'000**	Total annual accrued pension at 31 March 2013 £'000
S G M Caffyn	1 December 2025	**112**	109
M S Harrison	8 June 2018	**33**	32
S J Caffyn	12 December 2033	**33**	32

The total annual accrued pension excludes transferred-in benefits.

Normal retirement age for members of the defined benefit pension scheme is 65. On early retirement before age 65, accrued pension is discounted by 5% per annum (2013: 5%) simple, except where the Company consents to early retirement between 60 and 65, and then no discount would be applied in respect of accrued benefits earned up to 31 March 2014. Along with other employees who were employed by the Company in the year ended 31 March 1991, Mr S G M Caffyn is entitled to retire at age 60 on an unreduced basis. Pensions paid increase in line with Limited Price Indexation. On death, a one-half spouse's pension is due. Children's allowances to a maximum, including spouse's pension, of 100% of the executive's pension may be payable. Allowance is made in transfer value payments for discretionary benefits.

In the year to 31 March 2014, none of the directors were members of the Company's Defined Contribution Scheme (2013: 1). The Company contributed 3% and the director 3% of basic salary and any bonus paid.

The non-executive directors are not members of the Company's pension scheme.

Statement of directors' shareholding

The table below summarises the directors' shareholdings as at 31 March 2014. There were no changes in these shareholdings between that date and the date of approval of this report.

	As at 31 March 2014		As at 31 March 2013*	
	Ord	**10% Pref**	Ord	10% Pref
R C Wright	**5,312**	**—**	—	—
S G M Caffyn	**46,366**	**1,600**	41,774	1,600
M S Harrison	**7,592**	**—**	5,000	—
S J Caffyn	**36,971**	**1,655**	20,398	1,655
N W Hollingworth	**2,500**	**—**	2,500	—
N T Gourlay	**1,500**	**—**	—	—

*Or date of appointment if later.

No share ownership guidelines apply to directors.

All employee share scheme

Details of share options held by executive directors under the Employee ShareSave Scheme 2013 are as follows:

	Scheme	Date of Grant	Earliest Exercise Date	Expiry Date	Exercise Price £	Number at 1 April 2013	Lapsed in year	**Number at 1 March 2014**
S G M Caffyn	ShareSave	08/09/2013	01/09/2016	28/2/17	3.12	Nil	—	**2.261**
M S Harrison	ShareSave	08/09/2013	01/09/2016	28/2/17	3.12	Nil	—	**2.261**
S J Caffyn	ShareSave	08/09/2013	01/09/2016	28/2/17	3.12	Nil	—	**2.261**

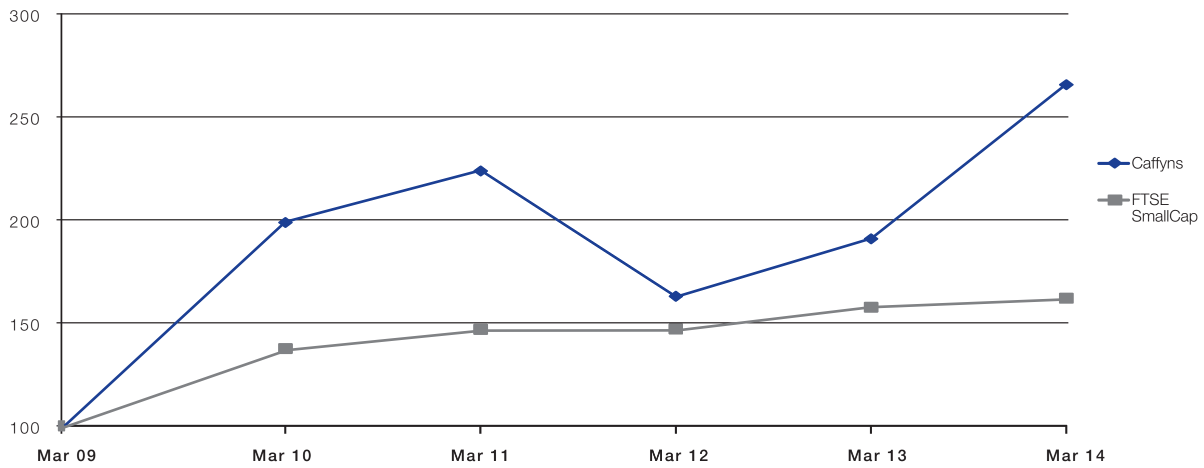
Following the maturity of the Employee ShareSave Scheme 2010, options granted to directors and subscribed for during the year at £3.50 per share, were as follows:

	Number of shares
S G M Caffyn	2,592
M S Harrison	2,592
S J Caffyn	2,592

Performance graph and table

The chart below shows the Company's five-year annual Total Shareholder Return ("TSR") performance against the FTSE Small-Cap Total Return Index, which is considered to be an appropriate comparison to other public companies of a similar size.

Total shareholder return – 31 March 2009 to 31 March 2014



The table below sets out the total remuneration delivered to the Chief Executive over each of the last five years, valued using the same methodology as applied to the single total figure of remuneration.

	Chief Executive : S G M Caffyn				
	2009–10	2010–11	2011–12	2012–13	2013–14
Total single figure £'000	367	290	268	280	534
Annual bonus % of maximum opportunity	27.5%	8.4%	Nil	5.0%	100.0%

Change in remuneration of Chief Executive

The following sets out the change in the Chief Executive's salary, benefits and bonus between 31 March 2013 and 31 March 2014 compared with the average percentage change in each of those components for the employees of the Group.

	Increase in base salary	Increase in benefits
CEO	2%	0%
Departmental managers and above	2%	0%

As noted above, the bonus of the CEO increased from 5% of salary in 2012–13 to 100% in 2013–14. The bonus pool of the comparator group increased by 59% in the year. The comparator group comprising departmental managers and above has been selected on the basis that these managers also have direct operational management responsibilities.

Relative importance of spend on pay

The table below sets out the total spend on pay in 2013 and 2012 year compared with other disbursements from profit (i.e. the distributions to shareholders). These were the most significant outgoings for the Company in the last financial year.

	Spend in 2013–14 £'000	Spend in 2012–13 £'000	% Increase
Spend on staff pay (including Directors)	**12,496**	12,112	3.2%
Profit distributed by way of dividend	**360**	332	8.4%

If the proposed final dividend for the year ended 31 March 2014 is approved at the forthcoming AGM, the total dividend payable in respect of the year to 31 March 2014 will be £497,000 (2013: £332,000), an increase of 50%.

Implementation of remuneration policy 2014–15

The annual salaries and fees to be paid to directors in 2014–15 are set out in the table below, together with any increases expressed as a percentage.

	2014–15 salary/fees £000	2013–14 salary/fees £000	Increase/ (decrease) %
S G M Caffyn	**261**	254	3.0
M S Harrison	**179**	174	3.0
S J Caffyn	**68**	76	(10.0)*
R C Wright	**60**	56	7.9**
N W Hollingworth	**27**	26	3.0
N T Gourlay (appointed September 2013)	**27**	26	3.0

* Reduction due to reduced contracted hours (after 3.0% rate increase).

** In line with executive directors, the Chairman did not receive an increase to his salary between 1 April 2010 and 31 March 2013. His salary of £54,500 was increased by 2% as at 1 April 2013 when the salary for a non-executive director was increased from £19,800 to £26,000. The Committee (excluding Mr Wright) decided that an increase in the Chairman's salary to £60,000 from 1 April 2014 would be appropriate.

The basis for determining annual bonus payments for 2014–15 is set out in the future policy table in the directors' remuneration report on page 20. The profit targets are considered commercially sensitive because of the information that it provides to the Company's competitors and consequently these will only be disclosed after the end of the financial year, in the 2015 annual report of remuneration.

Consideration by the directors of matters relating to directors' remuneration

The Committee

The Committee is responsible for reviewing and recommending the framework and policy for remuneration of the executive directors and of senior management. The Committee's terms of reference are available on the Company's website. The members of the Committee during the financial year were N W Hollingworth (Chairman), A R Goodburn (retired 25 October 2013), R Wright, N T Gourlay (appointed 26 September 2013). N W Hollingworth and N T Gourlay are independent non-executive directors of the Board. The Committee met three times during the year and all members eligible to attend were present.

The primary role of the Committee is to set the directors' remuneration policy and accordingly to:

- review, recommend and monitor the level and structure of remuneration for the executive directors and other senior executives;
- approve the remuneration package for the executive directors;
- determine the balance between base pay and performance related elements of the package to align executive directors' interests with those of shareholders; and
- approve annual incentive payments for executive directors.

Summary of activity during 2013–14

During 2013–14 the Committee conducted its annual review of all aspects of the remuneration packages of the executive directors to ensure that they continue to reward and motivate achievement of medium and long-term objectives, and align the interests of executive directors and shareholders. Accordingly, the Committee's activities during the year included:

- reviewing the basic salaries of the executive directors for 2014–15;
- reviewing the basic salary of the Chairman;
- setting annual performance targets in line with the Company's plan for 2014–15 and determining the amounts that may potentially be payable.

Statement of voting at 2014 AGM

At the last annual general meeting, votes on the remuneration report were cast as follows:

Votes for	%	Votes Against	%	Abstentions	%
3,282,837	93.56	222,475	6.34	3,500	0.10

The disclosure in the 2014–15 Directors' Remuneration Report will include details of the binding shareholder vote on the directors' remuneration policy.

By Order of the Board

N W Hollingworth
Chairman of the Remuneration Committe
30 May 2014

Report of the Directors

The directors present their report and financial statements for the year ended 31 March 2014.

Results and dividends

The results of the Group for the year are set out in the financial statements on pages 40 to 44. An interim dividend of 6.0p per share was paid to shareholders on 10 January 2014. The Board is recommending a final dividend of 12.0p per share (2013: 7.0p) making a total of 18.0p per share (2013: 12.0p). Total ordinary dividends paid in the year amounted to £360,000. Dividends paid in the year to preference shareholders were £102,000 (2013: £102,000) as set out in note 9 to the financial statements.

Directors

The directors in office at 31 March 2014 are set out below:

Mr R C Wright PG Dip FIMI FCIM was appointed Chairman on 26 July 2012. He joined the Board as a non-executive director and Chairman-elect on 1 November 2011. He has previously held senior executive roles with the Ford Motor Company including Director, European Operations at Jaguar Cars Limited, Director of Sales, Ford Motor Company Limited and President/Managing Director of Ford Belgium NV. He is currently Chairman of API Group plc, having been appointed a non-executive director in 2001, and has been on the Advisory Board of Warwick Business School, University of Warwick, since 2002. He is the former Chair of the Board of National Savings and Investments, which is part of HM Treasury.

Mr N W Hollingworth BSc joined the Board as a non-executive director on 1 March 2008. He graduated from Birmingham University in 1973 having read chemistry. He is currently Group Chief Executive of Austin Reed Group Limited, formerly Austin Reed plc which de-listed from the London Stock Exchange in January 2007, having formerly held senior management roles within Arcadia Group plc, Etam plc and The Burton Group plc.

Mr N Gourlay BSc FCA, a Chartered Accountant, joined the Board as a non-executive director on 26 September 2013. He spent more than 20 years with the BAT plc group of companies, leaving in 2001. In 2003 Mr Gourlay co-founded Animos LLP, a business consultancy of which he remains a partner. He is currently a director of Toronto Venture Exchange quoted Feronia Inc.

Mr S G M Caffyn MA FIMI joined the Board on 16 July 1992 and was appointed chief executive on 1 May 1998. He graduated from Cambridge in 1983 having read engineering, and subsequently worked for Andersen Consulting. He joined the Company in 1990.

Mr M S Harrison FCA FIMI joined the Board on 17 April 2000. A Chartered Accountant, he was previously Finance Director of Faupel Trading Group plc for nine years. Having qualified with Grant Thornton, he joined KPMG. Subsequent commercial appointments were in the property, retail and distribution sectors.

Miss S J Caffyn BSc FCIPD AICSA FIMI joined the Board on 28 April 2003 as Human Resources Director. She joined the Company on 27 April 1998 as Group Personnel Manager and was appointed Company Secretary in 1999. A Chartered Company Secretary, she was previously an HR Manager at St Mary’s NHS Trust, Paddington.

Mr A R Goodburn FCA retired from the Board on 25 October 2013.

Interests in shares

The interests of the directors and their families in the shares of the Company are as follows:

	As at 31 March 2014		As at 31 March 2013*	
		10%		10%
	Ord	**Pref**	Ord	Pref
R C Wright	**5,312**	**–**	–	–
S G M Caffyn	**46,366**	**1,600**	41,774	1,600
M S Harrison	**7,592**	**–**	5,000	–
S J Caffyn	**36,971**	**1,655**	20,398	1,655
N W Hollingworth	**2,500**	**–**	2,500	–
N Gourlay	**1,500**	**–**	–	–

* Or date of appointment if later.

There were no changes in the directors' shareholdings between 1 April and the date of this report.

Mr S G M Caffyn and Miss S J Caffyn are directors of Caffyn Family Holdings Limited which owns all of the 2,000,000 6% Cumulative Second Preference Shares which have full voting rights.

The market price of the Company's Ordinary Shares at 31 March 2014 was £5.45 and the range of market prices during the year was £3.90 to £5.875.

Appointment and replacement of the Company's directors

The rules for the appointment and replacement of the Company's directors are detailed in the Company's Articles of Association. Directors are appointed by ordinary resolution at a general meeting by shareholders entitled to vote or by the Board either to fill a vacancy or as an addition to the existing Board. The appointment of non-executive directors is on the recommendation of the Nominations Committee; the procedure is detailed in the Chairman's Statement on Corporate Governance on page 14.

Directors' indemnity and insurance

The Company's Articles of Association permit the Board to grant the directors indemnities in relation to their duties as directors in respect of liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the Group. In line with market practice, each director has the benefit of a deed of indemnity. The Group has also purchased insurance cover for the directors against liabilities arising in relation to the Company, as permitted by the Companies Act 2006. This insurance does not cover fraudulent activity.

Compensation for loss of office

In the event of an executive director's employment with the Company being terminated, Mr S G M Caffyn is entitled to receive from the Company a sum equivalent to twice his annual emoluments which applied immediately before his termination and Mr M S Harrison and Miss S J Caffyn are entitled to receive from the Company a sum equivalent to their annual emoluments which applied immediately before their termination. Emoluments include a proportion of the available bonus which the expired part of the measured period for bonus bears to the whole of such measurement period. If there is change in control of either the composition of the Board, the policy of the Company in General Meeting or 30% or more of the issued equity capital of the Company, Mr S G M Caffyn is entitled to elect for an early retirement pension which shall not be reduced due to early payment but is limited by restrictions which may be imposed by HM Revenue & Customs. The executive directors' service contracts commenced from the date of their appointment to the Board.

In the event of the Chairman's employment with the Company being terminated, he or she is entitled to receive from the Company a sum equivalent to six months' salary.

In the event of a non-executive director's employment with the Company being terminated, they are entitled to receive from the Company a sum equivalent to six months' salary.

Share capital

As at 31 March 2014, the issued share capital of the Company comprised Ordinary Shares of 50p each and three classes of preference share namely 6.5% Cumulative First Preference Shares of £1 each, 10% Cumulative Preference Shares of £1 each and 6% Cumulative Second Preference Shares of 10p each. Details of the share capital of the Company are set out in note 22 to the accounts. The rights and obligations attaching to the Company's shares are set out below and in the Company's Articles of Association, copies of which can be obtained from Companies House or by writing to the Company Secretary.

Rights and obligations attaching to shares

Subject to applicable statutes and other shareholders' rights, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide.

Holders of Ordinary Shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies (and, if they are corporations, corporate representatives). Holders of Ordinary Shares are entitled to receive a dividend if one is declared and receive a copy of the Company's annual report and accounts.

Holders of Cumulative First Preference Shares are entitled in priority to any payment of dividend on any other class of shares, to a fixed cumulative preferential dividend at the rate of 6.5% per annum.

Subject to the rights of the holders of Cumulative First Preference Shares, holders of 6% Cumulative Second Preference Shares of 10p each are entitled in priority to any payment of dividend on any other class of shares to a fixed cumulative preferential dividend at the rate of 6% per annum.

Subject to the rights of the holders of Cumulative First Preference Shares and 6% Cumulative Second Preference Shares of 10p, holders of 10% Cumulative Preference Shares of £1 each are entitled in priority to any payment of dividend on any other class of shares to a fixed cumulative preferential dividend at the rate of 10% per annum. The percentage of the total share capital represented by each class is as follows:

Authorised	£'000	%
500,000 6.5% Cumulative First Preference Shares of £1 each	500	12.35
3,000,000 6% Cumulative Second Preference Shares of 10p each	300	7.41
1,250,000 10% Cumulative Preference Shares of £1 each	1,250	30.86
4,000,000 Ordinary Shares of 50p each	2,000	49.38
	4,050	100.00
Allotted, called up and fully paid		
389,000 6.5% Cumulative First Preference Shares of £1 each	389	14.54
648,000 10% Cumulative Preference Shares of £1 each	648	24.22
2,000,000 6% Cumulative Second Preference Shares of 10p each	200	7.47
Total preference shares recognised as a financial liability	1,237	46.23
2,879,298 Ordinary Shares of 50p each	1,439	53.77
	2,676	100.00

Voting rights, restrictions on voting rights and deadlines for voting rights

Shareholders (other than any who, under the provisions of the Articles of Association or the terms of the shares they hold, are not entitled to receive such notices from the Company) have the right to receive notice of, and attend, and to vote at all general meetings of the Company. The Company's auditor has similar rights except that they may not vote. A resolution put to the vote at any general meeting is to be 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.

Every member present in person at a general meeting has, on the calling of a poll, one vote for every Ordinary Share of 50p nominal amount of share capital of which he is the holder and one vote for every 6% Cumulative Second Preference Share of 10p nominal amount of share capital of which he is 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 while 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 and speak and vote on their behalf at a general meeting. Further details regarding voting at the Annual General Meeting can be found in the notes to the Notice of the Annual General Meeting. To be effective, paper proxy appointments and voting instructions must be received by the Company's registrars no later than 48 hours before a general meeting.

There are no restrictions on the transfer of Ordinary Shares in the Company other than certain restrictions which may be imposed pursuant to the Articles of Association of the Company, certain restrictions which may from time to time be imposed by laws and regulations (for example in relation to insider dealing), restrictions pursuant to the Company's share dealing code whereby directors and certain employees of the Company require prior approval to deal in Company's shares, and where a person has been served with a disclosure notice and has failed to provide the Company with information concerning the interests in those shares.

The Company is not aware of any arrangements or agreements between shareholders that may result in restrictions on the transfer of Ordinary Shares or on voting rights.

Sharesave scheme

The Company encourages employee share ownership through the provision of a Save As You Earn (SAYE) scheme, administered by the Yorkshire Building Society. The scheme was launched in March 2013 and applications received from 122 employees. The share options for 124,445 Ordinary Shares granted under the scheme in August 2013 are exercisable upon expiry of a three year savings contract at a pre-determined price of £3.12 per share. There were options over 117,328 Ordinary Shares outstanding as at 31 March 2014.

Significant direct or indirect shareholdings

At 30 May 2014, the directors are aware of the following interests in 3% or more of the nominal value of the Ordinary Share capital (excluding treasury shares):

	Ordinary Shares	%
T & I Limited	207,900	7.54
M A Bruce-Smith	184,000	5.77
GAM Exempt UK Opportunities Fund	173,267	4.94
HSBC Republic Bank Suisse SA	128,349	4.66
Caffyns Pension Fund	125,570	4.55
A M Caffyn	108,336	3.93
K E Caffyn	104,804	3.80
Lady D A Caffyn	95,011	3.45
M I Caffyn	86,500	3.13
HSBC Global Custody	85,000	3.08

Property

The Company last valued its portfolio of freehold premises as at 31 March 2014 but excluding four sites which were either for sale or letting as at that date. The valuation was carried out by CBRE Limited, Chartered Surveyors, on the basis of existing use value. Excluding the four properties noted above, the excess of the valuation over net book value as at 31 March 2014 was £6.0m. In accordance with the Company's accounting policies, this surplus has not been incorporated into the accounts.

Greenhouse gas emissions

Information on greenhouse gas emissions is set out in the Strategic Report on page 10.

Business at the Annual General Meeting

As well as dealing with formal business, the Company takes the opportunity afforded at the Annual General Meeting to provide up-to-date information about the Company's trading position and to invite and answer questions from shareholders on its policies and business. At the Annual General Meeting, a separate resolution is proposed for each substantive matter. The Company's Annual Report and financial statements are dispatched to shareholders, together with the Notice of Annual General Meeting summarising the business proposed, giving the requisite period of notice.

Going concern

The directors are satisfied that, after making enquiries, the Group is in a sound financial position with adequate resources to continue in operation for the foreseeable future. In forming this view, the directors have reviewed detailed financial trading and cash flow forecasts and other financial information. These forecasts indicate that the Group will be able to operate within the financing facilities that are available to it, with sufficient margin for reasonable adverse movements in expected trading conditions. They have also taken into consideration that the Group's banking facilities remain available to them and are appropriate given the Group's current and medium-term plans. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details surrounding the directors' rationale regarding the going concern assumption are included in Principal Accounting Policies on page 46.

Information concerning the Group's liquidity and financing risk are set out on page 7 and in note 17 to the financial statements.

Auditor

Grant Thornton UK LLP has indicated its willingness to continue as the independent auditor and a resolution concerning its reappointment will be proposed at the Annual General Meeting.

The directors who held office at the date of approval of this Directors' Report confirm that, in so far as each of the directors is aware, there is no relevant audit information of which the Company's auditors are unaware and the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

By order of the Board

S J Caffyn
Company Secretary
30 May 2014

Directors’ Responsibilities

Directors’ Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Annual Report, the Remuneration 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 are required to prepare the Group financial statements and have elected to prepare the parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company’s auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for preparing the annual report in accordance with applicable law and regulations. Having taken advice from the Audit Committee, the directors consider the annual report and the financial statements, taken as a whole, provides the information necessary to assess the Company’s performance, business model and strategy and is fair, balanced and understandable.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

To the best of our knowledge:

- the Group financial statements, 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 or loss of the Company and the undertakings included in the consolidation taken as a whole; and

- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by order of the Board

S G M Caffyn	***M S Harrison***
Chief Executive	*Finance Director*
30 May 2014	

Report of the Independent Auditor

Independent auditor's report to the members of Caffyns plc

We have audited the financial statements of Caffyns plc for the year ended 31 March 2014 which comprise the Group and parent Company income statement, the Group and parent Company statement of comprehensive income, the Group and parent Company statement of financial position, the Group and parent Company statements of changes in equity, the Group and parent Company cash flow statements, the principal accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/apb/scope/private.cfm.

Auditor commentary

An overview of the scope of our audit

The Group is made up of one operating company, Caffyns plc, and three dormant undertakings ("the Group"). We undertook an interim visit of the Group's head office in February 2014 to evaluate the Group's internal control environment, including IT systems. We evaluated controls over key financial systems identified as part of our risk assessment, reviewed the work undertaken by the internal audit function on controls relevant to our risk assessment, reviewed the accounts production process, addressed critical accounting matters and performed certain substantive procedures in advance of the year end. We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks.

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of a misstatement or an omission from the financial statements or related disclosures that would make it probable that the judgement of a reasonable person relying on the information would have been changed or influenced by the misstatement or omission. For the Group audit, we established materiality for the Group financial statements as a whole to be £75,000, which is 5% of profit before taxation.

Our assessment of risk

Without modifying our opinion, we highlight the following matters that are, in our judgement, likely to be most important to users' understanding of our audit. Our audit procedures relating to these matters were designed in the context of our audit of the Group financial statements as a whole, and not to express an opinion on individual transactions, account balances or disclosures.

Revenue recognition

There is a presumed risk that revenue may be misstated due to fraud because management could be under pressure to achieve planned levels of sales. We therefore identified revenue recognition as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, an assessment of the design and operation of controls in respect of revenue. We tested a sample of revenue transactions to determine whether they had been recorded in the correct period. We also performed substantive analytical procedures and where trends fell outside of our expectations, discussed those with management and obtained supporting evidence. Our work also included testing a sample of manual journals to identify unusual or irregular items and an assessment of the consistency of application of the revenue recognition policy.

The Group's accounting policies are included on page 45.

Vehicle inventory

Included on the balance sheet of the Group is £26.9m of inventories, of which £26.0m relates to vehicle inventory. This inventory is carried at the lower of cost and net realisable value, being fair value less cost to sell. Management assess the fair value of vehicle inventories using industry valuation data, based upon recent industry activity and forecasts. Given the significant level of vehicle inventories held, we have identified the recognition and measurement of vehicle inventories as a risk requiring special audit consideration.

Our audit work included, but was not restricted to, an assessment of the design and operation of control activities over the recognition and measurement of vehicle inventories. We reviewed management's assessment of the year end valuations which included comparing the carrying value of used vehicles against industry accepted valuation methodology and also to a selection of post year-end sales. We attended an inventory count at the year-end at four sites and performed analytical procedures on the remainder of vehicle inventory sites.

The Group's accounting policies are included on page 51.

Impairment of property

As at 31 March 2014 the carrying amount of the net assets of the Group was more than its market capitalisation. Under IAS 36 "Impairment of Assets" this represents an indication that an asset may be impaired. Under IAS 36, the directors are required to determine whether the value of Group's assets, which predominantly relates to the Group's property, is impaired. The process for measuring and recognising impairment under IAS is complex and highly judgemental. We therefore identified impairment of property as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, an assessment of the directors' methodology and evaluating the directors' assessment of impairment, including the key inputs of the forecast cash flows, the discount rate used, the growth rate assumed and the historical accuracy of budgets. We also evaluated the directors' sensitivity analysis and assessed whether the financial statement disclosures met the requirements of accounting standards.

The Group's accounting policies are included on page 50.

Defined benefit scheme

The Group has a significant pension deficit on the balance sheet. The pension scheme is accounted for in accordance with IAS 19 Employee Benefits (IAS 19). The process to measure the amount of pension liability, including the determination of the appropriate timing of recognition, involves significant judgement as the valuation is subject to complex actuarial assumptions. We therefore identified the defined benefit pension scheme as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, assessing the appropriateness of the directors' application of IAS 19 valuation methodology, verifying underlying data sent to actuaries and agreeing asset values to investment manager statements. We challenged management's assumptions and held discussions with the Group's actuary.

The Group's accounting policies are included on page 48.

Management override of financial control

Under ISAs (UK & Ireland), for all of our audits we are required to consider the risk of management override of financial controls. Due to the unpredictable nature of this risk we are required to assess it as a significant risk requiring special audit consideration.

Our audit work included, but was not restricted to, specific procedures relating to this risk that are required by ISA 240 "The Auditor's Responsibilities relating to Fraud in an Audit of Financial Statements". This included tests of journal entries, the evaluation of judgements and assumptions in management's estimates and tests of significant transactions outside the normal course of business.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2014 and of the Group's and parent Company's profit for the year then ended; and
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Other reporting responsibilities

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Statement on Corporate Governance set out on pages 12 to 17 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that were communicated to the audit committee which we consider should have been disclosed.

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Statement on Corporate Governance has not been prepared by the Company.

Under the Listing Rules, we are required to review:

- the directors' statement, set out on page 35, in relation to going concern;
- the part of the Statement on Corporate Governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Robert Napper
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
30 May 2014

Income Statement

for the year ended 31 March 2014

Group and Company

	Note	Underlying £'000	Non-underlying (note 2) £'000	2014 £'000	Underlying (as restated)* £'000	Non-underlying (note 2) (as restated)* £'000	2013 (as restated)* £'000
Revenue	1	**193,166**	**—**	**193,166**	150,847	14,118	164,965
Cost of sales		**(169,878)**	**—**	**(169,878)**	(131,969)	(12,117)	(144,086)
Gross profit		**23,288**	**—**	**23,288**	18,878	2,001	20,879
Operating expenses							
Distribution costs		**(12,759)**	**—**	**(12,759)**	(11,030)	(1,750)	(12,780)
Administration expenses		**(7,481)**	**(20)**	**(7,501)**	(5,738)	(1,727)	(7,465)
Operating profit before other income		**3,048**	**(20)**	**3,028**	2,110	(1,476)	634
Other income (net)	2	**—**	**—**	**—**	—	1,718	1,718
Operating profit	3	**3,048**	**(20)**	**3,028**	2,110	242	2,352
Finance expense	5	**(882)**	**—**	**(882)**	(892)	(25)	(917)
Finance expense on pension scheme	6	**—**	**(580)**	**(580)**	—	(313)	(313)
Net finance (expense)/income		**(882)**	**(580)**	**(1,462)**	(892)	(338)	(1,230)
Profit before taxation		**2,166**	**(600)**	**1,566**	1,218	(96)	1,122
Income tax (expense)/credit	7	**(78)**	**(77)**	**(155)**	(186)	46	(140)
Profit for the year from continuing operations		**2,088**	**(677)**	**1,411**	1,032	(50)	982
Earnings per share continuing operations							
Basic	8			**51.0p**			35.5p
Diluted	8			**50.3p**			34.4p
Non-GAAP measure							
Basic	8			**75.5p**			37.3p
Diluted	8			**74.4p**			36.2p

* See page 45 for details of restatement.

See accompanying notes to the financial statements.

Statement of Comprehensive Income

for the year ended 31 March 2014

Group and Company

	Note	**2014** **£'000**	2013 (as restated)* £'000
Profit for the year		**1,411**	982
Other comprehensive income			
Items that will never be reclassified to profit and loss:			
Remeasurement of net defined benefit liability	20	**2,515**	(7,443)
Deferred tax on remeasurement	21	**(912)**	1,711
Total other comprehensive income, net of taxation		**1,603**	(5,732)
Total comprehensive income for the year		**3,014**	(4,750)

* See page 45 for details of restatement.

See accompanying notes to the financial statements.

Statements of Financial Position

at 31 March 2014

	Note	Group 2014 £'000	Group 2013 £'000	Company 2014 £'000	Company 2013 £'000
Non-current assets					
Property, plant and equipment	11	**37,637**	31,073	**37,637**	31,073
Investment property	12	**525**	528	**525**	528
Goodwill	10	**286**	286	**286**	286
Deferred tax asset	21	**676**	1,743	**676**	1,743
Investment in subsidiary undertakings	13	**—**	—	**250**	250
		39,124	33,630	**39,374**	33,880
Current assets					
Inventories	14	**26,853**	25,650	**26,853**	25,650
Trade and other receivables	15	**6,163**	6,174	**6,163**	6,174
Cash and cash equivalents		**949**	1,159	**949**	1,159
Non-current assets classified as held for sale	11	**—**	446	**—**	446
		33,965	33,429	**33,965**	33,429
Total assets		**73,089**	67,059	**73,339**	67,309
Current liabilities					
Interest bearing loans and borrowings	16	**1,000**	3,500	**1,000**	3,500
Trade and other payables	18	**29,496**	25,658	**29,746**	25,908
Current tax payable		**208**	208	**208**	208
		30,704	29,366	**30,954**	29,616
Net current assets		**3,261**	4,063	**3,011**	3,813
Non-current liabilities					
Interest bearing loans and borrowings	16	**11,875**	7,500	**11,875**	7,500
Preference shares	22	**1,237**	1,237	**1,237**	1,237
Retirement benefit obligations	20	**11,360**	13,641	**11,360**	13,641
		24,472	22,378	**24,472**	22,378
Total liabilities		**55,176**	51,744	**55,426**	51,994
Net assets		**17,913**	15,315	**17,913**	15,315
Capital and reserves					
Share capital	22	**1,439**	1,439	**1,439**	1,439
Share premium account		**272**	272	**272**	272
Capital redemption reserve		**282**	282	**282**	282
Non-distributable reserve		**2,390**	2,390	**2,390**	2,390
Other reserve	19	**30**	120	**30**	120
Retained earnings		**13,500**	10,812	**13,500**	10,812
Total equity attributable to shareholders of Caffyns plc		**17,913**	15,315	**17,913**	15,315

The financial statements were approved by the Board of directors on 30 May 2014 and were signed on its behalf by:

R C Wright
Chairman
30 May 2014

M S Harrison
Finance Director

See accompanying notes to the financial statements.

Company number: 105664

Statement of Changes in Equity

for the year ended 31 March 2014

Group and Company

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2013	1,439	272	282	2,390	120	10,812	15,315
Total comprehensive income							
Profit for the period	—	—	—	—	—	1,411	1,411
Other comprehensive income	—	—	—	—	—	1,603	1,603
Total comprehensive income for the year	—	—	—	—	—	3,014	3,014
Transactions with owners:							
Dividends	—	—	—	—	—	(360)	(360)
Purchase of own shares	—	—	—	—	—	(386)	(386)
Issue of shares – SAYE scheme	—	—	—	—	—	292	292
Transfer – SAYE scheme (2010)	—	—	—	—	(128)	128	—
Share-based payment	—	—	—	—	38	—	38
At 31 March 2014	**1,439**	**272**	**282**	**2,390**	**30**	**13,500**	**17,913**

for the year ended 31 March 2013

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Other reserve £'000	Retained earnings (as restated)* £'000	Total (as restated)* £'000
At 1 April 2012	1,439	272	282	2,390	96	15,891	20,370
Total comprehensive income							
Profit for the period	—	—	—	—	—	982	982
Other comprehensive income	—	—	—	—	—	(5,732)	(5,732)
Total comprehensive income for the year	—	—	—	—	—	(4,750)	(4,750)
Transactions with owners:							
Dividends	—	—	—	—	—	(332)	(332)
Issue of shares – SAYE scheme	—	—	—	—	—	3	3
Share-based payment	—	—	—	—	24	—	24
At 31 March 2013	1,439	272	282	2,390	120	10,812	15,315

* See page 45 for details of restatement.

Cash Flow Statement

for the year ended 31 March 2014

Group and Company

	Note	2014 £'000	2013 (as restated)* £'000
Net cash inflow/(outflow) from operating activities	23	**5,372**	(41)
Investing activities			
Proceeds on disposal of property, plant and equipment		**457**	2,896
Purchases of property, plant and equipment		**(7,460)**	(3,670)
Net cash outflow from investing activities		**(7,003)**	(774)
Financing activities			
Secured loans repaid		**(125)**	—
Secured loans received		**5,000**	—
Purchase of own shares		**(386)**	—
Issue of shares – SAYE scheme		**292**	3
Dividends paid		**(360)**	(332)
Net cash inflow/(outflow) from financing activities		**4,421**	(329)
Net increase/(decrease) in cash and cash equivalents		**2,790**	(1,144)
Cash and cash equivalents at beginning of year		**(2,341)**	(1,197)
Cash and cash equivalents at end of year		**449**	(2,341)

	31 March 2014 £'000	31 March 2013 £'000
Cash and cash equivalents	949	1,159
Overdrafts	(500)	(3,500)
Net cash and cash equivalents	449	(2,341)

* See page 45 for details of restatement.

See accompanying notes to the financial statements

Principal Accounting Policies

Basis of preparation and statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs"), International Financial Reporting Interpretations Committee ("IFRIC") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below. This set of financial statements has been prepared in accordance with the accounting policies set out in the Annual Report for the year ended 31 March 2013 apart from in relation to the amendments required by IAS 19 "Employee Benefits". The principal amendment is the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation. The new standard requires retrospective application and impacts the Group's Income Statement and Statement of Comprehensive Income as a result of the changes in assessing the return on pension scheme assets. A prior year restatement has been made to reflect these changes as set out below.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based upon management's best knowledge of the amount, events or actions, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the directors in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 28.

Restatement

As a result of the amendments to IAS 19: Employee Benefits, the Group has changed its accounting policy with respect to determining income or expense relating to its defined benefit pension scheme. The standard prescribes that an interest expense or income is calculated on the net benefit liability/(asset) by applying the discount rate to the net defined benefit liability/(asset). This replaces the interest expense on the defined benefit obligation and the expected return on plan assets. The revised standard requires retrospective application; prior periods have been restated accordingly together with the associated tax. The amounts are all non-underlying in nature and result in the following changes:

	Year to 31 March 2013 £'000
Consolidated Statement of Financial Performance	
Increase in finance expense	(313)
Decrease in finance income	(87)
Decrease in income tax expense	93
Decrease in profit for the period	(307)
Decrease in basic earnings per share (pence)	(11.1)p
Decrease in diluted earnings per share (pence)	(10.8)p
Consolidated Statement of Comprehensive Income	
Other comprehensive income:	
Remeasurement of net defined benefit liability	400
Deferred tax on remeasurement	(93)
Increase in other comprehensive income	307

Principal Accounting Policies

Adoption of new and revised standards and new standards and interpretations not yet adopted

The Group has adopted the following new standards and interpretations in these financial statements:

Amendments to IAS 1 Presentation of items of Other Comprehensive Income: The amendments require that an entity presents separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The adoption of this standard has not had a significant impact on the financial statements.

IFRS 13 Fair Value Measurement: New standard to replace existing guidance on fair value measurement in different IFRSs with a single definition of fair value, a framework of measuring fair values and disclosures about fair value measurements. This standard applies to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is proved. Fair value is defined as the price that would be received to see an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The adoption of this standard has had no significant impact.

Amendments to IAS 19 Employee Benefits: The amendments require immediate recognition of the remeasurement of the defined benefit liability in other comprehensive income. The principal amendment that affects the Group is the requirement to calculate net interest income or expense using the discount rate used to measure the defined benefit obligation. The new standard requires retrospective application and impacts the Group's Income Statement and Statement of Comprehensive Income as a result of the changes in assessing the return on pension scheme assets. A prior year restatement has been made to reflect these changes as detailed above.

At the date of authorisation of the financial statements the following standards and interpretations which have not yet been applied by the Group in these financial statements, were in issue but not yet effective:

Other standards/interpretations	Content	Applicable on/after
IAS 28 (Revised)	Investments in Associates and Joint Ventures	1 January 2014
IFRS 9	Financial instruments: Classification and measurement	None at present
IFRS 10	Consolidated Financial Statements	1 January 2014
IFRS 11	Joint Arrangements	1 January 2014
IFRS 12	Disclosure of Interests in Other Entities	1 January 2014
IAS 27 (Revised)	Separate financial statements	1 January 2014
Amendments to IFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2014
IAS 36 (Amendment)	Recoverable amount Disclosure for Non-Financial Assets	1 January 2014
IAS 39 (Amendment)	Novation of derivatives and continuation of hedge accounting	1 January 2014

The directors are currently assessing the impact of these new accounting standards on the accounting policies of the Group.

Going concern

The financial statements have been prepared on a going concern basis which the directors consider appropriate for the reasons set out below.

The Company and the Group meet their day-to-day working capital requirements through short-term stocking loans and bank overdraft and medium-term revolving credit facilities. At the year-end the medium-term banking facilities included a revolving credit facility of up to £7.5m, renewable in April 2015, and short-term overdraft facilities of £10.5m, of which £7.0m was renewed on 2 May 2014 for the period to 31 May 2015. The other overdraft facility of £3.5m is renewable in August 2014. In the opinion of the directors, there is a reasonable expectation that all facilities will be renewed. The overdraft and revolving credit facilities include certain covenant tests. The failure of a covenant test would render these facilities repayable on demand at the option of the lenders.

The directors have undertaken a detailed review of trading and cash flow forecasts for a period in excess of one year from the date of this Annual Report which projects that the facility limits are not exceeded over the duration of the forecasts. These forecasts have made assumptions in respect of future trading conditions, particularly volumes and margins of new and used car sales, aftersales and operational improvements together with the timing of capital expenditure. The forecasts take into account these factors to an extent which the directors consider to be reasonable, based on the information that is available to them at the time of approval of this financial information. These forecasts indicate that the Group will be able to operate within the financing facilities that are available to it and meet the covenant tests with sufficient margin for reasonable adverse movements in expected trading conditions.

Information concerning the Group's liquidity and financing risk are set out on page 7 and in note 17 to the financial statements.

The directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future. For those reasons, they continue to adopt the going concern basis in preparing this Annual Report.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year. All subsidiaries are currently dormant so the income, expenses and cash flows are the same for the Group and the Company.

The results of businesses and subsidiaries acquired or disposed of during the year are included in the consolidated income statement using the acquisition method from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Acquisition

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill, which is allocated to Cash-Generating Units ("CGUs"). Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit or loss in the period of acquisition.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets acquired, and is tested annually for impairment. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Gains and losses on subsequent disposal of the assets acquired include any related goodwill.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date and annually thereafter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Sales of motor vehicles, parts and accessories are recognised when the significant risks and rewards of ownership have been transferred to the buyer. In general this occurs when vehicles or parts are delivered to the customer and title has passed. Servicing sales are recognised on completion of the agreed work.

Non-underlying items

Non-underlying items are those items that are unusual because of their size, nature or incidence. The Group's management consider that these items should be disclosed separately to enable a full understanding of the Group's operating results. Trading results, including losses incurred and wind-down expenses are included within non-underlying from the date of the announcement to close the branch or termination of the dealer agreement with the manufacturer. Trading results and associated expenses of those branches prior to that date (including those for comparative periods) are not reclassified to non-underlying retrospectively as, in the opinion of the directors, they become non-underlying only after the relevant announcement has been made to close or terminate the operations.

The net financing return and service cost on pension obligations in respect of the defined benefit pension scheme closed to future accrual is presented as a non-underlying item due to the volatility of this amount.

All other activities are treated as underlying.

Leasing

Lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income on a straight-line basis over the terms of the relevant lease.

Lessor

The Group leases certain properties under operating leases. Substantially all the risks and rewards of ownership are retained by the Group and the assets are stated at historical cost less depreciation. Provision for depreciation of all property, plant and equipment of the Group is made in equal annual instalments over their estimated useful lives.

Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred unless the borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset in which case they are capitalised.

Retirement benefit costs

The Group operates the "Caffyns Pension Scheme" which is a defined benefit pension scheme. The defined benefit scheme defines the amount of pension benefit that an employee will receive on retirement, dependent on one or more factors including age, years of service and salary. The scheme is closed to new members and to future accrual.

Under IAS 19 (Revised), the defined benefit deficit is included on the Group's Statement of Financial Position. Liabilities are calculated based on the current yields on high quality corporate bonds and on market conditions. Surpluses are only included to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme

Remeasurement arising from experience adjustments and changes in actuarial assumptions are charged or credited, net of deferred tax, each year to reserves and shown in the Statement of Comprehensive Income.

As a result of the amendments to IAS 19 Employee Benefits, the Group has changed its accounting policy with respect to determining the income or expense related to its defined benefit pension scheme. The standard prescribes that an interest expense or income is calculated on the next defined benefit liability or asset respectively by applying the discount rate to the net defined benefit liability or asset. This replaces the interest expense on the defined benefit obligation and the expected return on plan assets. The revised standard requires retrospective application. Details of the restatement are given on page 45.

The Group also provides pension arrangements for employees under defined contribution schemes. Contributions for these schemes are charged to the Income Statement in the year in which they are payable.

Share-based employee compensation
The Group operates an equity settled share-based compensation plan for all employees through the Company's SAYE scheme. All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share option awarded. Their fair value is appraised at the grant date. The vesting period from the date of grant is three years.

All share-based compensation is ultimately recognised as an expense in profit and loss with a corresponding credit to the 'other reserve', net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Service and performance vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Non-vesting conditions such as the employee's requirement to continue to save under the SAYE scheme, are taken into account when determining the fair value of the award. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated. Failure by the employee to meet a non-vesting condition is treated as a cancellation.

Fair value is measured by use of the Black–Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax. Tax balances are not discounted.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of year accounting date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each financial year-end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited within other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income. The tax base of an item takes into account its intended method of recovery by either sale or use.

Property, plant and equipment
Land and buildings used in the business are stated in the statement of financial position at cost, or deemed cost, being the open market value at 31 March 1995, for those properties acquired before that date.

Depreciation on buildings is charged to the Income Statement. On the subsequent sale of a property, the attributable surplus remaining in the non-distributable reserve is transferred directly to accumulated profits.

Properties in the course of construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and attributable borrowing costs. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Properties are regarded as purchased or sold on the date on which contracts for the purchase or sale become unconditional. The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit and loss.

Other assets are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost less residual values of assets, other than land and properties under construction, over their estimated useful lives using the straight-line method, on the following basis:

Freehold buildings	– 50 years
Leasehold buildings	– Period of lease
Plant and machinery, fixtures and fittings	– 3 to 10 years

The leasehold land is accounted for as an operating lease.

The residual value of all assets, depreciation methods and useful economic lives, if significant, are reassessed annually.

Investment property

Investment property, which is property held to earn rentals and/or capital appreciation, is stated at cost less accumulated depreciation and impairment. Rental income from investment property is recognised on a straight -line basis over the term of the lease. Depreciation is charged so as to write off the cost less residual values of investment properties over their estimated useful lives using the straight-line method over 50 years.

Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. No further depreciation is provided once assets are classified as held for sale.

Impairment

a) Impairment of goodwill
Goodwill is tested annually for impairment. If an impairment provision is made, it cannot subsequently be reversed.

b) Impairment of property, plant and equipment
At each financial year-end date the Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the Cash-Generating Unit ("CGU") to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows from other groups of assets. Management have determined that the CGU's of the Group are the groups of dealerships for each franchise. Where more than one franchise operates from a site, the franchises are aggregated together with the dominant franchise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost represents the purchase price plus any additional costs incurred.

Vehicle stock includes service vehicles. Consignment vehicles are regarded as being effectively under the control of the Group and are included within inventories on the statement of financial position as the Group has substantially all of the significant risks and rewards of ownership even though legal title may not yet have passed. The corresponding liability is included in trade and other payables. Parts inventories are based upon replacement purchase cost principle and are written down to net realisable value by providing for obsolescence on a time and stock-based formula approach.

Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing and selling.

Trade and other receivables

Trade receivables do not carry any interest and are stated at their fair value on initial recognition as reduced by appropriate allowances for estimated irrecoverable amounts and subsequently carried at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on-demand deposits. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts. Bank overdrafts are shown within interest-bearing borrowings in current liabilities on the statement of financial position.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are included at cost, less amounts written off if the investment is determined to be impaired, and are included in the parent Company's separate financial statements.

Financial liabilities

All financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are recorded at their fair value on initial recognition (normally the proceeds received less transaction costs that are directly attributable to the financial liability) and subsequently at amortised cost under the effective interest method. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables

Trade payables are not interest-bearing and are stated at their fair value on initial recognition and subsequently carried at amortised cost.

Equity

Ordinary shares are classified 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.

Share premium includes any premium received on the sale of shares. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any income tax benefits.

Capital redemption reserve comprises the nominal value of Ordinary Share capital purchased by the Company and cancelled.

The ‘Non-distributable reserve’ within equity is a revaluation reserve which comprises gains and losses due to the revaluation of property, plant and equipment prior to 1995.

The ‘Other reserve’ comprises share-based payments made under the Group’s SAYE scheme.

Retained earnings includes all current and prior period retained profits.

Where any Group company purchases the Company’s equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company’s equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s equity holders.

Preference shares

All the preference shares are accounted for as non-current liabilities, as they have the attributes of debt. Preference dividends are accounted for as finance charges within interest payable.

Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial instruments are derecognised if the Group’s contractual rights to the cash flows from the financial asset expire. Financial liabilities are derecognised if the Group’s obligations specified in the contract expire or are discharged or cancelled.

1. General information

Caffyns plc is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 11. Its revenue is attributable to the sole activity of operating as a motor retailer in the south east of the United Kingdom and comprises revenue from:

	2014	2013
	£'000	£'000
Sale of goods	**185,443**	156,654
Rendering of services	**7,723**	8,311
	193,166	164,965

Based upon the management information reported to the Group's chief operating decision maker, the chief executive, in the opinion of the directors, the Company only has the one reportable segment. The Group is operated and managed on a dealership by dealership basis. These dealerships are considered to have similar economic characteristics and offer similar products and services to a similar customer base. As such, the results of each dealership have been aggregated to form one reportable segment. There are no major customers amounting to 10% or more of the Group's revenue. All revenue and non-current assets derive from, or are based in, the United Kingdom.

2. Non-underlying items

		2013
	2014	As restated*
	£'000	£'000
Impairment of property, plant and equipment	**–**	(178)
Net profit on disposal of property, plant and equipment	**–**	1,896
Other income (net)	**–**	1,718
Within operating expenses:		
Losses incurred on closed businesses	**–**	(1,067)
Redundancy costs	**–**	(414)
	–	(1,481)
Total other income (net of costs)	**–**	237
Net finance income and service cost on pension scheme	**(600)**	(333)
Total non-underlying items before taxation	**(600)**	(96)
Income tax expense – tax charge on non-underlying items	**(77)**	46
Total after tax	**(677)**	(50)

The following amounts have been presented as non-underlying items in these financial statements:

There were no impairment provisions required (2013: £178,000), no losses resulting from the closure of businesses (2013: £1,067,000) and no branch specific redundancy costs (2013: £414,000).

The net financing return and service cost on pension obligations in respect of the defined benefit scheme closed to future accrual is presented as a non-underlying item due to the volatility of this amount.

* Restated to reflect the impact of the adoption of IAS 19 (2011) (see Accounting Policies – "Restatement" on page 45).

3. Operating profit

Operating profit has been arrived at after charging/(crediting):	**2014** **£'000**	2013 £'000
Employee benefit expense (see note 4)	**14,516**	14,160
Impairment of property, plant and equipment	**–**	135
Impairment of asset held for sale	**–**	43
Depreciation of property, plant, equipment and investment property		
– owned assets	**893**	916
Net profit on disposal of property, plant and equipment including assets held for sale	**(5)**	(1,896)
Operating lease rentals payable		
– land and buildings	**485**	465
– plant and machinery	**10**	9
Operating lease rentals receivable		
– land and buildings	**278**	81

Operating profit has been arrived at after charging:	**2014** **£'000**	2013 £'000
Auditor's remuneration		
– Fees payable to the Company's auditor for the audit of the Company's annual accounts	**68**	64
– Fees payable to the Company's auditor and its associates for other services:		
– Other services pursuant to legislation - Interim review	**11**	10
– Tax services (including compliance and VAT advice)	**15**	19
– Fees in respect of the audit of the Caffyns plc Pension Scheme	**8**	8
– Other services	**–**	2
	102	103

A description of the work of the Audit Committee is set out in the Chairman's Statement on Corporate Governance on pages 12 to 17 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

4. Employee benefit expense

The average number of people employed by the Group in the following areas was:

	2014 Number	2013 Number
Sales	**115**	106
Aftersales	**207**	224
Administration	**78**	95
	400	425

Employee benefit expense during the year including directors amounted to:	2014 £'000	2013 As restated* £'000
Wages and salaries	**12,496**	12,112
Social security costs	**1,273**	1,159
Redundancy costs	**–**	414
Contributions to defined contribution plans	**147**	141
Other pension costs (see note 20)	**600**	333
	14,516	14,160

* Restated to reflect the impact of the adoption of IAS 19 (2011) (see Accounting Policies – "Restatement" on page 45).

Directors' emoluments were:	2014 £'000	2013 £'000
Emoluments	**1,134**	755
Compensation for loss of office	**–**	130
Pension contributions	**–**	3
Pension to widow of former director	**19**	19
	1,153	907

Details of the directors' remuneration are provided in the Directors' Remuneration Report on pages 20 to 30.

5. Finance expense

	2014 £'000	2013 £'000
Interest payable on bank borrowings	**299**	329
Vehicle stocking plan interest	**433**	370
Financing costs amortised	**48**	116
Preference dividends (see note 9)	**102**	102
Finance expense	**882**	917

Interest payable on bank borrowings is after capitalising interest on additions to freehold properties of £90,000 at a rate of 3.5% (2013: £13,000, rate: 4.4%) (see note 11).

6. Finance expense on pension scheme

	2014 £'000	2013 (as restated)* £'000
Defined benefit pension scheme net finance expense (see note 20)	**580**	313

* Restated to reflect the impact of the adoption of IAS 19 (2011) (see Accounting Policies – "Restatement" on page 45).

7. Tax

	2014 £'000	2013 £'000
Current tax		
UK corporation tax	**–**	–
Deferred tax (see note 21)		
Origination and reversal of temporary differences	**(351)**	(182)
Adjustments recognised in the period due to change in rate of corporation tax	**333**	42
Adjustments recognised in the period for deferred tax of prior periods	**(137)**	–
Total tax charged in the Income Statement	**(155)**	(140)

	2014	2013
The tax (charge)/credit arises as follows:		
On normal trading	**(78)**	(186)
Non-underlying (see note 2)	**(77)**	46
	(155)	(140)

The charge for the year can be reconciled to the profit per the Income Statement as follows:

	2014 £'000	2013 £'000
Profit before tax	**1,566**	1,122
Tax at the UK corporation tax rate of 23% (2013: 24%)	**(360)**	(269)
Tax effect of expenses that are not deductible in determining taxable profit	**(9)**	(21)
Change in rate of corporation tax from 23% to 20% (2013: 24% to 23%)	**333**	42
Accounting depreciation/impairment for which no tax relief is due	**(88)**	(130)
Difference between accounts profits and taxable profits on capital asset disposals	**18**	479
Movement in rolled over and held over gains	**88**	(241)
Adjustments to tax charge in respect of prior years	**(137)**	–
Tax charge for the year	**(155)**	(140)

7. Tax (continued)

The total tax charge for the year is made up as follows:

	2014 £'000	2013 £'000
Total current tax charge	**–**	–
Deferred tax charge		
Charged in Income Statement	**(155)**	(140)
(Charged)/credited against other comprehensive income	**(912)**	1,711
Total deferred tax (charge)/credit	**(1,067)**	1,571
Total tax (charge)/credit for the year	**(1,067)**	1,571

Factors affecting the future tax charge

The Company has unrelieved advance corporation tax of approximately £1.14m (2013: £1.14m) which is available to be utilised against future mainstream corporation tax liabilities and is accounted for in deferred tax (see note 21).

The tax charge is increased by non-deductible expenses including the impairment of property, plant and equipment and non-qualifying depreciation.

8. Earnings per ordinary share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. Treasury shares are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post-tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of earnings and weighted average number of shares used in the calculations are set out below:

	Adjusted		**Basic**	
	2014 £'000	2013* £'000	**2014 £'000**	2013* £'000
Profit before tax	**1,566**	1,122	**1,566**	1,122
Adjustments:				
Non-underlying items (note 2)	**600**	96	**–**	–
Adjusted profit before tax	**2,166**	1,218	**1,566**	1,122
Taxation	**(78)**	(186)	**(155)**	(140)
Earnings	**2,088**	1,032	**1,411**	982
Earnings per share	**75.5p**	37.3p	**51.0p**	35.5p
Diluted earnings per share	**74.4p**	36.2p	**50.3p**	34.4p

* As restated to reflect the impact of the adoption of IAS19 (2011) (see Accounting Policies – "Restatement" on page 45).

The number of fully paid ordinary shares in circulation at the year-end was 2,757,213 (2013: 2,767,553). The weighted average shares in issue for the purposes of the earnings per share calculation were 2,766,903 (2013: 2,766,973). The shares granted under the Company's SAYE scheme are dilutive. The weighted average number of dilutive shares under option at fair value was 37,808 (2013: 85,831) giving a total diluted weighted average number of shares of 2,804,711 (2013: 2,852,804).

9. Dividends

	2014 £'000	2013 £'000
Paid		
Preference		
6.5% Cumulative First Preference	**25**	25
10% Cumulative Preference	**65**	65
6% Cumulative Second Preference	**12**	12
Included in finance expense (see note 5)	**102**	102
Ordinary		
Interim dividend paid in respect of the current year of 6.0p (2013: 5.0p)	**166**	138
Final dividend paid in respect of the March 2013 year end of 7.0p (2012: 7.0p)	**194**	194
	360	332

Proposed

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2014 of 12.0p per share which will absorb £331,000 of shareholders' funds (2013: 7.0p per share absorbing £194,000). The proposed final dividend is subject to approval by shareholders at the forthcoming Annual General Meeting and has not been included as a liability in these financial statements.

10. Goodwill

Group and Company	2014 £'000	2013 £'000
Cost		
At 1 April 2013 and 31 March 2014	**481**	481
Provision for impairment		
At 1 April 2013 and 31 March 2014	**195**	195
Carrying amounts:		
Volkswagen, Brighton	**200**	200
Audi, Eastbourne	**86**	86
At 31 March	**286**	286

For the purposes of impairment testing of goodwill, the directors recognise the Group's Cash-Generating Units ("CGUs") to be connected groupings of dealerships. The recoverable amount of each CGU is based on the higher of its realisable value and value in use. The realisable value of each CGU is based upon the market value of any property contained within it and is determined by an independent valuer as described in note 11. The value in use is calculated using Board approved budgeted projections for 2014/15. These projections take into account management estimates of future trading including past experience and industry expectations. They are extrapolated over an additional four years assuming no growth in profits, and a risk adjusted discount rate reflecting the Group's weighted average cost of capital is applied in order to calculate each CGU's terminal value. While it is anticipated that the units will grow revenues in the future, for the purposes of impairment testing, no growth has been assumed beyond the period covered by the budget of one year. A pre-tax discount rate of 5% was applied in determining the value in use of the CGUs which the Group has estimated to be the approximate weighted average cost of capital to the Group.

The two key assumptions made by the directors are the discount rate used and profitability rates beyond the business plan. Neither a 1% increase in the discount rate nor a 10% reduction in operating profit would result in any impairment being required.

In the case of the CGUs to which the goodwill relates, the realisable value of those CGUs was greater than the carrying value of the assets allocated to them. Consequently, the directors have concluded that no impairment is required in the year ended 31 March 2014.

11. Property, plant and equipment

	Freehold property £'000	Leasehold property £'000	Fixtures & fittings £'000	Plant & machinery £'000	Total £'000
Group and Company					
Cost or deemed cost					
At 1 April 2012	26,736	504	4,595	5,153	36,988
Additions at cost	2,703	550	325	92	3,670
Transfer from assets held for sale	2,571	—	—	—	2,571
Disposals	(588)	(79)	(974)	(351)	(1,992)
At 31 March 2013	31,422	975	3,946	4,894	41,237
Cost or deemed cost					
At 1 April 2013	31,422	975	3,946	4,894	41,237
Additions at cost	6,259	38	755	409	7,461
Transfer from assets held for sale	—	—	—	—	—
Disposals	—	(326)	(179)	(59)	(564)
At 31 March 2014	**37,681**	**687**	**4,522**	**5,244**	**48,134**
Accumulated Depreciation					
At 1 April 2012	2,255	352	3,694	4,018	10,319
Charge for the year	316	41	309	246	912
Transfer from assets held for sale	218	—	—	—	218
Impairment	41	94	—	—	135
Disposals	(68)	(83)	(924)	(345)	(1,420)
At 31 March 2013	2,762	404	3,079	3,919	10,164
Accumulated Depreciation					
At 1 April 2013	2,762	404	3,079	3,919	10,164
Charge for the year	319	61	278	232	890
Disposals	—	(326)	(175)	(56)	(557)
At 31 March 2014	**3,081**	**139**	**3,182**	**4,095**	**10,497**
Net book amount					
At 31 March 2014	**34,600**	**548**	**1,340**	**1,149**	**37,637**
At 31 March 2013	28,660	571	867	975	31,073
At 31 March 2012	24,481	152	901	1,135	26,669

11. Property, plant and equipment (continued)

Short-term leasehold property comprised £548,000 at net book value in the statement of financial position (2013: £571,000) in both the Company and the Group.

The depreciation charge in respect of property, plant and equipment is recognised within administration expenses within the Income Statement.

Additions to freehold property includes interest capitalised of £90,000 (2013: £13,000) (see note 5).

Future capital expenditure which has been contracted for but not yet provided in the financial statements was £169,000 (2013: £265,000).

Valuations

The freehold properties were revalued externally at 31 March 1995 by Lambert Smith Hampton, Chartered Surveyors, at open market value for existing use (which the directors are satisfied is close to the then fair value). Freehold properties acquired since that date and the other assets listed above are stated at cost in accordance with IAS 16.

Freehold property is included as follows:

	Group and Company	
	2014	2013
	£'000	£'000
Valuation – March 1995, less depreciation	**4,719**	4,773
At cost, less depreciation	**29,881**	23,887
Deemed cost, less depreciation at the year end	**34,600**	28,660
At historic cost (including property qualifying as non-current asset held for resale)	**32,210**	29,080

The Company valued its portfolio of freehold premises as at 31 March 2014 but excluding four sites which were either for sale or letting as at that date. The valuation was carried out by CBRE Limited, Chartered Surveyors, on the basis of existing use value. The excess of the valuation over net book value as at 31 March 2014 of those sites valued was £6.0m. In accordance with the Company's accounting policies, this surplus has not been incorporated into the accounts.

Depreciation is being charged on the value of freehold buildings of £16,103,000 (2013: £15,993,000). This excludes buildings of £4,899,000 where depreciation on newly constructed sites in 2013–14 will commence to be depreciated from 1 April 2014. The balance relates to freehold land, which is not depreciated.

Non-current assets classified as held for sale

The Group held one freehold property which was classified as held for sale in the prior year. This property has been sold during the current financial year and is referred to in the Operational and Business Review.

Property, plant and equipment held for sale at 31 March 2013 with a net book value of £446,000 fulfilled the conditions to be reclassified as non-current assets held for sale.

Properties held for sale are carried in the financial statements at the lower of their carrying amount on being classified as held for sale and fair value less costs to sell.

12. Investment property

Group and Company	2014 £'000	2013 £'000
Cost		
At 31 March 2013	**608**	608
Accumulated depreciation	**(83)**	(80)
At 31 March 2014	**525**	528

There were no direct costs incurred on this property during the year (2012: £nil). The property is a motor dealership and fair value is estimated by the directors at £750,000 (2013: £750,000) based on a recent option agreement with the tenant.

13. Investments in subsidiary undertakings

The Company owns the whole of the issued ordinary share capital of Caffyns Wessex Limited, Caffyns Properties Limited and Fasthaven Limited, all of which are now dormant. The amount at which the investments are stated is equivalent to the net assets of the subsidiaries. All subsidiary undertakings are registered in England and Wales.

	Company £'000
Cost	
At 31 March 2014 and at 31 March 2013	476
Provision	
At 31 March 2014 and at 31 March 2013	226
Net book amounts	
At 31 March 2014 and at 31 March 2013	**250**

14. Inventories

Group and Company	2014 £'000	2013 £'000
Vehicles	**16,746**	15,829
Vehicles on consignment	**9,293**	9,016
Oil, spare parts and materials	**808**	797
Work in progress	**6**	8
	26,853	25,650

Inventories recognised as an expense during the year	**171,725**	144,515
Inventories stated at fair value less costs to sell	**686**	678
Carrying value of inventories subject to retention of title clauses	**16,863**	15,795

All vehicle stocks held under consignment stocking agreements are deemed to be assets of the Group and are included on the statement of financial position from the point of consignment. The corresponding liabilities to the manufacturers are included within trade and other payables. Stocks are held on consignment for a maximum consignment period of 365 days. Interest is payable in certain cases for part of the consignment period, at various rates linked to the Finance House Base Rate.

During the year £15,000 was recognised in respect of the write down of vehicle parts inventories due to general obsolescence (2013: £70,000).

15. Trade and other receivables

Group and Company	2014 £'000	2013 £'000
Trade receivables	**5,051**	5,098
Allowance for doubtful debts	**(12)**	(34)
	5,039	5,064
Other receivables	**1,124**	1,110
	6,163	6,174

All amounts are due within one year.

The Group makes an impairment provision for all debts that are considered unlikely to be collected. At 31 March 2014 trade receivables are shown net of an allowance for impairment of £12,000 (2013: £34,000). The charge recognised during the year was £8,000 (2013: £13,000).

Trade receivables have been classified as loans and receivables under IAS 39.

The ageing of trade receivables at the reporting date was:	2014 £'000	2013 £'000
Not past due	**4,805**	4,795
Past due 0–30 days	**197**	223
Past due 31–120 days	**37**	46
	5,039	5,064

The movement in the allowance for impairment during the year was:	2014 £'000	2013 £'000
Balance at 1 April	**34**	22
Net impairment recognised	**8**	13
Utilisation	**(30)**	(1)
Balance at 31 March	**12**	34

All amounts are due within one year.

Credit risk

The Company's principal financial assets are bank balances and cash, trade receivables, which represent the Company's maximum exposure to credit risk in relation to financial assets.

The Company's credit risk is primarily attributable to its trade receivables which are all due on presentation of the invoice. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment. Consequently the directors consider that the carrying amount of trade and other receivables approximates their fair value.

Before granting any new customer credit terms the Group uses external credit agencies to assess the new customer's credit quality and defines credit limits by customer. These credit limits and creditworthiness are regularly reviewed. The concentration of credit risk is limited due to the customer base being large and unrelated. The Group has no customer that represents more than 5% of the total balance of trade receivables.

16. Interest bearing loans and borrowings

Group and Company

	2014 £'000	2013 £'000
Current liabilites		
Secured bank loans/overdrafts	**1,000**	3,500
Non-current liabilities		
Secured bank loans	**11,875**	7,500

Note 17 sets out the maturity profile of non-current liabilities.

The directors estimate that there is no material difference between the fair value of the Company's borrowings and their book value.

The loan and overdraft facilities provided to the Company of £22.875m (2013: £18.0m) are secured by a general debenture and fixed charges over certain freehold properties.

17. Financial instruments

The Group utilises financial instruments such as bank loans and overdrafts and new and used vehicle stocking loans in order to finance its operations and to manage the interest rate and liquidity risks that arise from those operations and from its sources of finance. The disclosures below apply to the Group and the Company unless otherwise noted.

Group		**2014 Carrying value & fair value £'000**	2013 Carrying value & fair value £'000
Fair value of financial assets and liabilities			
Primary financial instruments held or issued to finance the Group's operations:	Classification		
Long term borrowings (note 16)	Financial liability measured at amortised cost	**(11,875)**	(7,500)
Short-term borrowings (note 16)	Financial liability measured at amortised cost	**(1,000)**	(3,500)
Trade and other payables (note 18)	Financial liability measured at amortised cost	**(28,218)**	(25,264)
Trade and other receivables (note 15)	Loans and receivables	**6,163**	6,174
Cash and cash equivalents	Loans and receivables	**949**	1,159
Preference share capital (note 22)	Financial liabilities at amortised cost	**(1,237)**	(1,237)
The amounts noted in the above table are the same for the Company apart from:			
Trade and other payables (note 18)	Financial liability measured at amortised cost	**(28,468)**	(25,514)

Financial risk management

The Group is exposed to the following risks from its use of financial instruments:

- Funding and liquidity risk – the risk that the Group will not be able to meet its obligations as they fall due.
- Credit risk – the risk of financial loss to the Group on the failure of a customer or counterparty to meets its obligations as they fall due.
- Market risk – the risk that changes in market prices such as interest rates have on the Group's financial performance.

The Group manages credit and liquidity risk by particularly focusing on working capital management. The Group's quantitative exposure to these risks is explained throughout these financial statements whilst the Group's objectives and management of these risks is set out below.

17. Financial instruments (continued)

Capital management

The Board's policy is to maintain a strong capital base to maintain market confidence and safeguard the Group's ability to continue as a going concern whilst maximising the return on capital to the Group's shareholders. The Group monitors its capital through closely monitoring and reviewing its cash flows. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to holders of Ordinary Shares, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's net debt/equity ratio was 67% at 31 March 2014 (2013: 64%). Capital requirements imposed externally by the Group's bankers are that bank borrowings should not exceed 80% of the current value of the Group's freehold properties which are subject to a fixed charge. The underlying pre-tax return on equity for the year was 12.1% (2013 as restated: 8.0%).

The Group has occasionally repurchased its own shares in the market and cancelled them in order to promote growth in earnings per share. There is no predetermined plan for doing this although the Group has permission from shareholders to buy back up to 15% of its equity at any one time. The Group may also purchase its own shares in order to satisfy share incentives issued to employees of the Group and these shares are then held as treasury shares.

Treasury policy and procedures

The Company's activities expose it primarily to the financial risks of changes in interest rates. There are no fixed rate borrowings other than preference shares.

Funding and liquidity management

The Group finances its operations through a mixture of retained profits and borrowings from banks, vehicle stocking credit lines and operating cash flow. The Group's policy is to maintain a balance between committed and uncommitted facilities and between term loans and overdrafts. Facilities are maintained at levels in excess of planned requirements and at 31 March 2014 the Group had undrawn floating rate borrowing facilities of £10.95m (2013: £8.2m) represented by overdrafts which would be repayable on demand.

Interest rate management

The objective of the Group's interest rate policy is to minimise interest costs while protecting the Group from adverse movements in interest rates. Borrowings at variable rates expose the Group to cash-flow interest rate risk whereas borrowings at fixed rates expose the Group to fair value interest rate risk. The Company does not currently hedge any interest rate risk.

Interest rate risk sensitivity analysis

As all of the Group's borrowings and vehicle stocking credit lines are floating rate instruments, they therefore have a sensitivity to changes in market rates of interest. The effect of a 100 basis points change in interest rates for floating rate instruments outstanding at the period end on the assumption that the instruments at the period end were outstanding for the entire period, would change interest charges by £114,000 (2013: £98,000) before tax relief.

Credit risk management

The Group's receivables are all denominated in sterling. The Group is exposed to credit risk primarily in respect of its trade receivables and financial assets. Trade receivables are stated net of provision for estimated impairment losses. Exposure to credit risk in respect of trade receivables is mitigated by the Group's policy of only granting credit to certain customers after an appropriate evaluation of credit risk. Credit risk arises in respect of amounts due from manufacturers in relation to bonuses and warranty receivables. This risk is mitigated by the range of manufacturers dealt with, the Group's procedures in effecting timely collection of amounts due and managements' belief that they do not expect any manufacturer to fail to meet its obligations. Finance assets comprise cash balances. The counterparties are major banks and management do not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of the financial asset in the statement of financial position.

These objectives, policies and strategies are consistent with those applied in the previous year.

17. Financial instruments (continued)

Cash and cash equivalents

	Carrying value & fair value 2014 £'000	Carrying value & fair value 2013 £'000
Bank balances and cash equivalents	**949**	1,159

Borrowings

All borrowings are denominated in sterling. The effective interest rates for all borrowings are based on bank base rates. Information regarding classification of balances and interest and the range of interest rates applied in the year to 31 March 2014 is set out in the following table:

	Carrying value & fair value £'000	Classification	Interest classification	Interest rate range
Current: within one year or on demand				
Overdraft	**500**	Amortised cost	Floating	FHBR + 1.75%
Term loan	**500**	Amortised cost	Floating	FHBR + 1.75%

	Carrying value & fair value £'000	Classification	Interest classification	Interest rate range
Not repayable within one year				
Term loan	**4,375**	Amortised cost	Floating	FHBR + 1.75%
Revolving credit facility	**7,500**	Amortised cost	Floating	LIBOR + 2.75%
Preference share capital	**1,237**	Amortised cost	Fixed	6.5% to 10%

The maturity of non-current borrowings is as follows:

	2014 £'000	2013 £'000
Between one and two years	**8,000**	—
Between two and five years	**2,000**	7,500
Over five years	**3,112**	1,237
	13,112	8,737

Maturities include amounts drawn under revolving credit facilities which are contractually repayable generally on a three months basis but which may be redrawn at the Group's option. The maturities above therefore represent the final repayment dates for these facilities as at 31 March. If the amounts drawn at the year-end were redrawn at the Group's usual practice of three monthly drawings, the total cash outflows, assuming interest rates remain at the same rates as at the year end, are estimated on an undiscounted basis as follows:

	2014 £'000	2013 £'000
Within 6 months	**122**	122
6–12 months	**122**	122
More than 12 months	**7,503**	7,785
Contractual cash flows	**7,747**	8,029

17. Financial instruments (continued)

The Group has a revolving credit facility of £7.5m expiring in May 2015. It also has £10.5m of overdraft facilities and these facilities are normally renewed annually. Of these facilities, £7.0m was renewed in May 2014 and the directors consider that the balance of £3.5m will be renewed in August 2014. The loan carries a rate of interest of 2.75% above LIBOR and the overdrafts are at a rate of interest of 2.75% above bank base rate and 1.75% above Finance House Base Rate.

The facilities are subject to covenants tested half yearly with respect to debt/freehold property and interest cover. No reduction in facilities is expected to apply consequent to the trading results for the year ended 31 March 2014. The Group has granted security by way of a general debenture over its assets and a fixed charge over certain freehold properties. The value of those assets at 31 March 2014 in the statement of financial position was £57.7m (2013: £51.4m). The ongoing costs associated with the bank facilities are included in finance expense (see note 5).

The preference shares in issue do not have a maturity date as they are non-redeemable.

18. Trade and other payables

	2014	2013
	£'000	£'000
Trade payables	**12,300**	10,855
Obligations relating to consignment stock	**9,293**	9,016
Manufacturer funding	**4,456**	3,742
Social security and other taxes	**962**	394
Accruals	**2,395**	1,613
Other creditors	**90**	38
Group total	**29,496**	25,658
Amounts owed to Group undertakings	**250**	250
Company total	**29,746**	25,908

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 22 days (2013: 22 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

The obligations relating to consignment stock are all secured on the assets to which they relate. From a risk perspective, our funding is split between manufacturers through their related finance arms and that funded by ourselves through bank borrowings.

Financing for used car stock other than through bank borrowings is shown above as manufacturer funding.

19. Share-based payments

SAYE scheme

Year of grant	Exercise price	Exercise date	Number at 31 March 2013	Exercised	Lapsed	**Number at 31 March 2014**
2010	£3.50	2013	123,599	83,382	40,217	**–**
2013	£3.12	2016	124,445	–	7,117	**117,328**

19. Share-based payments (continued)

The fair value of the grants made under the SAYE scheme is charged to the income statement over the vesting period based on the valuation derived from an adjusted Black–Scholes model. For the 2010 scheme the value was calculated at £4.38 and for the 2013 scheme £3.90 on the date of grant.

The significant inputs to the valuation were the mid-market share price on the day of the grant (2010: £4.38 and 2013: £3.90), the exercise price (2010: £3.50 and 2013: £3.12) and for both grants the expected life of the options is three years, the volatility of the share price at 29% (based on historical share price data) and the risk free rate of return (assumed to be the rate for a bond of similar duration and value). As dividends are payable over the vesting period a dividend yield of 3% is used.

The total expense included within operating profit relating to the share-based payments for the year was £38,000 (2013: £24,000), with an associated tax credit to the Income Statement and Equity in 2014 of £8,000 (2013: £5,000).

20. Retirement benefit scheme

Group and Company

Description of scheme

The Company operated a pension scheme, the Caffyns Pension Scheme ("CPS"), providing benefits based on final pensionable pay until 31 March 2006.

With effect from 1 April 2006, the scheme closed to new entrants and all members in the final salary section were transferred to the career average section for future service and certain benefits were reduced. Depending upon the proportion of pensionable pay purchased, the Company contribution rates varied between 4% and 15%. The scheme closed to future accrual with effect from 1 April 2010.

The assets of the CPS, administered by Capita Employee Benefits Limited, are held separately from those of the Company, being held in separate funds by the Trustees of the CPS. The scheme has been registered with the Registrar of Pensions. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 31 March 2011.

The scheme exposes the Group to actuarial risks such as:

Interest rate risk

The present value of the defined benefit liability is calculated using a discount rate determined by reference to market yields of corporate bonds whereas the scheme holds a mixture of investments. A decrease in market yield on high quality corporate bonds will increase the Group's defined benefit liability, although it is expected that this would be offset partially by an increase in the fair value of certain of the plan assets.

Investment risk

The plan assets at 31 March 2014 are predominantly equity debt and real estate instruments. The recent reinvestment in Diversified Funds is intended to reduce risk while maintaining planned returns.

Longevity risk

The Group is required to provide benefits for life for the members of the defined benefit liability. Increase in the life expectancy of the members, particularly in the UK where the pension payments are linked to RPI, will increase the defined benefit liability.

Inflation risk

A significant proportion of the defined benefit liability is linked to inflation. An increase in the inflation rate will increase the Group's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

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

20. Retirement benefit scheme (continued)

Results of most recent actuarial valuation

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the long-term investment returns would be 6.56% per annum, that there would be no salary increases following closure of the scheme to future accrual, and that present and future pensions would increase at the rate of 3.30% per annum for pension accrued before 1 April 2006 and 2.40% thereafter. The last actuarial valuation as at 31 March 2011 showed that the market value of the CPS assets was £70.0m and that the actuarial value of those assets represented 83% of the value of the benefits that had accrued to employees at that date. The deficit arising of £14.4m compared to a deficit of £5.5m under IAS 19 at 31 March 2011 and is due to different assumptions being adopted for the triennial valuation.

Costs and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuations carried out at 31 March 2011 were updated to 31 March 2014 by Towers Watson, qualified independent actuaries, for the requirements of IAS 19. Details are as follows:

	2014	2013
	%	%
Pension accrued before 1 April 2006	**3.00**	3.20
Pension accrued after 1 April 2006	**2.00**	2.20
Discount rate	**4.30**	4.30
Inflation	**3.20**	3.30
Rate of increase for deferred pensioners	**3.30**	3.30

The discount rate adopted is based upon the yields on high quality corporate bonds of appropriate duration.

The sensitivities regarding the principal assumptions used to measure scheme liabilities are set out below:

Assumption	**Change in assumption**	**Impact on scheme liabilities**
Discount rate	Increase/decrease by 0.1%	+/–£1.5m
Rate of inflation	Increase/decrease by 0.1%	+/–£1.3m
Pension increases	Increase/decrease by 0.1%	+/–£0.8m
Mortality	Increase/decrease of 1 year	+/–£0.3m

		Market value
The fair value of assets of the scheme on each class of assets, all of which have a quoted market price in an active market, are:	**2014** **£'000**	2013 £'000
Diversified Fund*	**29,824**	—
Dynamic Asset Allocation Fund**	**27,913**	—
Equity instruments	**719**	39,899
Bonds	**3,888**	6,922
Gilts	**15,834**	29,451
Property	**—**	1,979
	78,178	78,251

* The typical split of assets within the Diversified Fund is 37.5% in equity securities, 16% in corporate bonds, 11% in government bond securities, 15% in property securities and 20.5% in alternative securities.

**The split of assets in the Dynamic Asset Allocation Fund was 48% in equities, 6% in government bond securities, 10% in cash equivalent securities, 4% in property securities and 32% in alternative securities.

20. Retirement benefit scheme (continued)

The overall expected return on assets previously reflected the directors' long-term view of future returns taking into account market conditions at the year-end and asset allocation of the scheme. As a result of the introduction of IAS 19 (2011), the expected return on assets is to be based on the discount rate noted above of 4.3% and not the return on the underlying portfolio of investments. Consequently, the charge to the Income Statement for the year ending 31 March 2015 is expected to be approximately £502,000 (2014: £600,000).

Equity instruments include shares in Caffyns plc, which are detailed in note 22.

The assumptions used by the actuary are the best estimates based on market conditions chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The IAS assumptions have been updated at 31 March 2014 and differ from those used for the earlier independent statutory actuarial valuation explained above.

Mortality assumptions

	2014	**2014**	2013	2013
Life expectancy at age 65 (in years):	**Male**	**Female**	Male	Female
Member currently aged 65	**22.7**	**24.4**	22.6	24.3
Member currently aged 45	**24.1**	**25.9**	24.0	25.8

A liability is included in the statement of financial position under non-current liabilities. An asset is included in the statement of financial position as the scheme rules entitle the Company to offset a scheme asset against future funding.

Analysis of the movement in the net liability for defined benefit obligations recognised in the statement of financial position

	2014	2013*
	£'000	£'000
At 1 April	**(13,641)**	(6,260)
Expense recognised in the income statement	**(600)**	(333)
Contributions received	**366**	395
Net remeasurement recognised in other comprehensive income	**2,515**	(7,443)
At 31 March	**(11,360)**	(13,641)

Total expense recognised in income statement

	2014	2013*
	£'000	£'000
Interest cost	**3,870**	3,925
Interest on scheme assets	**(3,290)**	(3,612)
Interest – net (see note 6)	**580**	313
Current service cost	**20**	20
	600	333

*Restated to reflect the impact of IAS 19 (2011) (see Accounting Policies – "Restatement" on page 45).

20. Retirement benefit scheme (continued)

Changes in the present value of defined benefit obligation

	2014	2013
	£'000	£'000
At 1 April	**91,892**	79,003
Service cost	**20**	20
Interest cost	**3,870**	3,925
Actuarial gain – demographic assumptions	**(32)**	—
Actuarial (gain)/losses – financial assumptions	**(2,377)**	13,051
Benefits paid	**(3,835)**	(4,107)
At 31 March	**89,538**	91,892

Movement in the fair value of scheme assets

	2014	2013
	£'000	£'000
At 1 April	**78,251**	72,743
Interest income	**3,290**	3,612
Actuarial gains – financial assumptions	**106**	5,608
Contributions from the Company	**366**	395
Benefits paid	**(3,835)**	(4,107)
At 31 March	**78,178**	78,251

The best estimate of contributions payable by the Group in the year ending 31 March 2015 is £378,000. In addition, the Company is expected to meet the cost of administrative expenses and Pension Protection Levies (see note 24(c)). Expected benefit payments in the year to 31 March 2015 are £4.2m.

The liabilities of the CPS are based on the current value of expected benefit payment cash flows to members of the scheme over the next 70 to 80 years. The average duration of the liabilities is approximately 17 years.

Reconciliation of the impact of the asset ceiling

The Company has reviewed the implications of the guidance provided by IFRIC 14 and has concluded that it is not necessary to make any adjustments to the IAS 19 figures in respect of an asset ceiling or Minimum Funding Requirement as at 31 March 2014.

21. Deferred tax

Group and Company

The following are the major deferred tax (liabilities) and assets recognised by the Company and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation £'000	Unrealised capital gains £'000	Retirement benefit obligations* £'000	Losses £'000	Short-term temporary differences £'000	Recoverable ACT £'000	Total £'000
At 1 April 2012	(1,318)	(1,355)	1,503	181	23	1,138	172
Adjustment due to change in rate of corporation tax	56	57	(63)	(8)	—	—	42
(Charge)/credit to income	(38)	(248)	(14)	113	5	—	(182)
Recognised in other comprehensive income	—	—	1,711	—	—	—	1,711
At 31 March 2013	(1,300)	(1,546)	3,137	286	28	1,138	1,743
At 1 April 2013	(1,300)	(1,546)	3,137	286	28	1,138	1,743
Adjustment due to change in rate of corporation tax	169	202	(409)	(38)	—	—	(76)
Prior year adjustments	—	(326)	—	189	—	—	(137)
(Charge)/credit to income	(122)	60	47	(314)	(22)	—	(351)
Recognised in other comprehensive income	—	—	(503)	—	—	—	(503)
At 31 March 2014	**(1,253)**	**(1,610)**	**2,272**	**123**	**6**	**1,138**	**676**

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 it is considered that this requirement is fulfilled. The offset amounts are as follows:

* Restated to reflect the impact of the adoption of IAS 19 (2011) (see Accounting Policies – "Restatement" on page 45).

	2014 £'000	2013 £'000
Deferred tax liabilities	**(2,863)**	(2,846)
Deferred tax assets	**3,539**	4,589
	676	1,743

The unrealised capital gains includes deferred tax on gains recognised on revaluing the land and buildings in 1995 and where potentially taxable gains arising from the sale of properties have been rolled over into replacement assets. Such tax would become payable only if such properties were sold without it being possible to claim rollover relief.

Taxable trading losses amounting to £0.6m (2013: £1.2m) are available for use in future periods.

22. Called up share capital

	2014 £'000	2013 £'000
Authorised		
500,000 6.5% Cumulative First Preference Shares of £1 each	**500**	500
1,250,000 10% Cumulative Preference Shares of £1 each	**1,250**	1,250
3,000,000 6% Cumulative Second Preference Shares of 10p each	**300**	300
4,000,000 Ordinary Shares of 50p each	**2,000**	2,000
	4,050	4,050

	2014 £'000	2013 £'000
Allotted, called up and fully paid		
389,000 6.5% Cumulative First Preference Shares of £1 each	**389**	389
648,000 10% Cumulative Preference Shares of £1 each	**648**	648
2,000,000 6% Cumulative Second Preference Shares of 10p each	**200**	200
Total preference shares recognised as a financial liability (see note below)	**1,237**	1,237
2,879,298 (2013: 2,879,298) Ordinary Shares of 50p each	**1,439**	1,439
	2,676	2,676

There were 93,722 purchases of Ordinary Shares for holding as Treasury shares during the year (2013: nil). During the year 82,521 Ordinary Shares were issued from Treasury shares to employees who are entitled to take up their allocation having left the Company's employment and £289,000 was received. At 31 March 2014, 122,946 Ordinary Shares were held as Treasury shares at a cost of £509,000. Treasury shares represent shares in the Company which are held by the Company for the purpose of fulfilling the requirements of the Company's SAYE scheme for eligible employees. The market value of these shares at 31 March 2014 was £695,000. Dividend income from, and voting rights on, the shares held by the Trust have been waived.

The 6.5% Cumulative First Preference Shares and the 10% Cumulative Preference Shares have rights to a fixed dividend and, in the event of a winding-up, a preference to the Ordinary Shares for a capital repayment. The shares do not have voting rights unless the dividend is more than six months in arrears.

The 6% Cumulative Second Preference Shares have identical rights to the other classes of preference shares except that they have voting rights along with the Ordinary Shares on the basis of one vote for each share held.

Although the Articles of Association of the Company give the directors discretion to only pay the preference dividend if they consider there are adequate profits, such dividends are cumulative. For this reason, the directors consider that the preference shares have the characteristic of a financial liability rather than equity, and consequently the preference shares are included as a non-current liability. None of the preference shares have rights of conversion or rights to capital repayment.

23. Notes to the cash flow statement

	2014 £'000	2013 (as restated)* £'000
Profit before taxation	**1,566**	1,122
Adjustment for net finance expense	**1,462**	1,230
	3,028	2,352
Adjustments for:		
Depreciation of property, plant and equipment	**893**	916
Impairment of property, plant and equipment	**–**	178
Change in retirement benefit obligations	**(326)**	(375)
Gain on disposal of property, plant and equipment	**(5)**	(1,896)
Share-based payments	**38**	24
Operating cash flows before movements in working capital	**3,628**	1,199
Increase in inventories	**(1,203)**	(26)
Decrease in receivables	**11**	546
Increase/(decrease) in payables	**3,838**	(843)
Cash generated by operations	**6,274**	876
Income taxes	**–**	–
Interest paid	**(902)**	(917)
Net cash derived from operating activities	**5,372**	(41)

* As restated to reflect the impact of the adoption of IAS19 (2011) (see Accounting Policies – "Restatement" on page 45).

24. Related parties

Directors

The remuneration of the directors, who are key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report on pages 18 to 30.

	2014 £'000	2013 £'000
Short-term employee benefits	**1,134**	755
Post employment benefits	**–**	3
Termination benefits	**–**	130
Pension to widow of former director	**19**	19
Employers' Social Security	**147**	96
	1,300	1,003

24. Related parties (continued)

The 2,000,000 6% Cumulative Second Preference Shares have full voting rights along with the Ordinary Shares. These shares are beneficially owned by Caffyn Family Holdings Limited ("Holdings"). Mr S G M Caffyn and Miss S J Caffyn are directors of Holdings. The whole of the issued share capital of Holdings is held by close relatives of these directors. Holdings controls directly 42.0% of the voting rights of Caffyns plc. The directors and shareholders of Holdings are also beneficial holders of 590,507 Ordinary Shares in Caffyns plc representing a further 12.4% of the voting rights. It is therefore considered that the Caffyn family is the ultimate controlling party.

Directors of the Company and their immediate relatives control 3.6% of the issued Ordinary Share capital of the Company. Dividends of £11,306 were paid to directors in the year.

Caffyns Pension Fund

a) Details of contributions are disclosed in note 20.

b) The Pension Fund held the following investments in the Company:

	Fair value **2014** **£'000**	2013 £'000
Shares held		
125,570 (2013: 125,570) Ordinary Shares of 50p each	**684**	534
12,862 (2013: 12,862) 10% Cumulative Preference Shares of £1 each	**13**	13
	697	547

c) During the year to 31 March 2014 the Company paid management fees of £275,000 on behalf of the Pension Fund (2013: £275,000). These costs comprise the Pension Regulator's levy, actuarial advice and external administration fees.

25. Operating leases

The Group as lessee

The total future minimum lease payments payable under non-cancellable operating leases which fall due as follows:

Group and Company

	2014 Land and buildings £'000	**2014** Other £'000	2013 Land and buildings £'000	2013 Other £'000
Within one year	**460**	**14**	369	9
In two to five years	**1,729**	**4**	1,478	9
Beyond five years	**2,015**	**—**	2,081	—
	4,204	**18**	3,928	18

The total minimum lease payments for land and buildings are until the next break point in the lease. All rentals are fixed until either the termination of the lease, or in the case of land and buildings, the next break point.

The Group leases a number of properties, the majority of which are motor vehicle showrooms with workshop and parts retail facilities, with varying lease periods. None of these leases include contingent rentals. In addition, there are other leases in respect of items of plant and equipment.

25. Operating leases (continued)

The Group as lessor

Group and Company

Property rental income earned during the year was £278,000 (2013: £81,000). No contingent rents were recognised in income (2013: £nil).

At the date of the statement of financial position, there were contracts with tenants in respect of land and buildings for the following lease payments receivable:

	2014	2013
	£'000	£'000
Within one year	**235**	235
In two to five years	**837**	896
Beyond five years	**1,122**	1,137
	2,194	2,268

26. Capital commitments

The Group and Company had capital commitments at 31 March 2014 of £169,000 (2013: £265,000).

27. Contingent liabilities and assets

The Group and Company had no contingent liabilities at 31 March 2014 or 31 March 2013.

VAT

Additional amounts may be received from HM Revenue & Customs in respect of claims for overpayments in previous years. These claims are currently subject to legal appeals and will not be recognised unless they are agreed.

28. Critical accounting judgements & estimates when applying the Group's accounting policies

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Certain critical accounting judgements and estimates in applying the Group's accounting policies are listed below.

Retirement benefits obligation

The Group has a defined benefit pension plan. The obligations under this plan are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of assumptions used are provided in note 20. At 31 March 2014 the net liability included in the statement of financial position was £11.36m (2013: £13.64m).

Impairment

The carrying value of goodwill and property, plant and equipment is tested annually for impairment as described in note 10. The cash flow projections for each CGU where impairment is measured by reference to value in use are based upon actual and short-term planned results which are then extrapolated using a pre-tax discount rate of 5%. As a result of this review the directors consider it appropriate to impair the carrying value of certain assets totalling £nil (2013: £178,000) (see note 11).

Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income. It has been assumed that there will be sufficient taxable income in future to absorb all unrelieved corporation tax losses available to the Company. At 31 March 2014 the net deferred tax asset included in the balance sheet was £676,000 (2013: £1,743,000, as restated to reflect the impact of IAS 19 (2011)).

28. Critical accounting judgements and estimates when applying the Group's accounting policies (continued)

Inventory valuation

Motor vehicle inventories are stated at the lower of cost and net realisable value (fair value less costs to sell). Fair values are assessed using reputable industry valuation data which is based upon recent industry activity and forecasts. Whilst this data is deemed representative of current values it is possible that ultimate sales values can vary from those applied. At 31 March 2014 the value of vehicles included in the statement of financial position was £16.75m (2013: £15.83m).

Income tax

The actual tax on the Group's profit is determined according to complex laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for tax to be paid on past profits which are recognised in the financial statements. The Group considers the estimates, assumptions and judgements to be reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements. The estimated tax charge for the year in the Income Statement is £155,000 (2013: £140,000, as restated to reflect the impact of IAS 19 (2011)).

Consignment inventories

Consignment vehicles are regarded as effectively under the control of the Group and are included within inventories on the statement of financial position when the Group has substantially all of the significant risks and rewards of ownership even though legal title has not yet passed. The corresponding liability is included in trade and other payables. At 31 March 2014 the value was £9.3m (2013: £9.0m).

Non-underlying items

In determining the most appropriate presentation format for the Company's Income Statement the directors have considered the requirements of IAS 1 (revised) to present additional line items, heading and subtotals when such presentation is relevant to an understanding of an entity's performance. While the accounting policy adopted is set out on page 48, alternative formats or measurement criteria are potentially available. In the opinion of the directors it is appropriate that a dealership is regarded as non-underlying from the date that the notice of the termination of its franchise or closure is publically announced as it is from that point that the nature of its business changes from that of an ongoing operation. Total revenues relating to franchises which met the non-underlying criteria during the year amounted to £nil (2013: £14.1m).

VAT

The Group is in discussion with HM Revenue & Customs over claims which may give rise to additional income being recognised in future periods and, although this income may be significant, it is not possible at present to quantify them. Accordingly, no amount has been included in the financial statements in respect of these claims

Going concern

The directors assess the appropriateness of the going concern basis for the preparation of the financial statements. In doing so they consider the ability of the Group to trade within the financing facilities available to it. The conclusion of this assessment is set out in the accounting policy "The basis of preparation and statement of compliance" on pages 46 and 47.

29. Post balance sheet events

A final dividend of 12.0p per share (2013: 7.0p) has been recommended by the Directors.

Five Year Review

	2010 £'000	2011 £'000	2012* £'000	2013* £'000	**2014** **£'000**
Income Statement					
Revenue	189,426	201,467	170,192	164,965	**193,166**
Underlying operating profit	2,152	2,311	1,625	2,110	**3,048**
Finance expense	(873)	(1,168)	(1,061)	(892)	**(882)**
Underlying profit before finance income/(expense) on pension scheme	1,279	1,143	564	1,218	**2,166**
Finance income/(expense) on pension scheme	(427)	292	—	—	**—**
Underlying profit before tax	852	1,435	564	1,218	**2,166**
Non-underlying items	118	(1,167)	892	304	**(600)**
Profit before tax	970	268	1,456	1,522	**1,566**
Profit after taxation	1,107	218	1,416	982	**1,411**
Basic earnings per ordinary share	38.6p	7.7p	51.0p	35.5p	**51.0p**
Adjusted earnings per ordinary share	35.7p	41.4p	27.2p	37.3p	**75.5p**
Dividend per ordinary share payable in respect of the year	10.0p	12.0p	12.0p	12.0p	**18.0p**

* As restated for IAS 19 (2011) and treatment of IAS 19 pension cost as non-underlying

	2010	2011	2012*	2013*	**2014**
As at year end					
Shareholders' funds	20,275	20,270	20,370	15,315	**17,913**
Property, plant and equipment*	32,247	30,973	30,381	32,047	**38,162**
Bank borrowings (net)	9,491	8,078	8,719	9,846	**11,929**
Debt/shareholders' funds (gearing)	47%	40%	43%	64%	**67%**
Retirement benefit liability	6,358	5,481	6,260	13,641	**11,360**

* Includes Investment property and assets held for sale.

Notice of Annual General Meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to any aspect of the proposals referred to in this document or as to the action you should take, you should consult your stockbroker, solicitor, accountant or other professional adviser.

If you have sold or otherwise transferred all of your shares in Caffyns plc (the "Company"), please pass this document together with the accompanying proxy form as soon as possible to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

30 June 2014

Dear Shareholder

Annual General Meeting ("AGM")

I have pleasure in sending you the Notice of this year's AGM on pages 79 and 80, which will be held at **Caffyns Land Rover, Brooks Road, Lewes, BN7 2DN** on **24 July 2014** at **2.30 p.m.**

Explanatory notes on all the business to be considered at this year's AGM appear on pages 81 to 83 of this document.

Recommendation

The board considers that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole and are most likely to promote the success of the Company for the benefit of its shareholders as a whole. The directors unanimously recommend that you vote in favour of the proposed resolutions as they intend to do in respect of their own beneficial holdings.

Yours faithfully,

Richard Wright
Chairman

NOTICE is hereby given that the Annual General Meeting of Caffyns plc (the "Company") will be held at **Caffyns Land Rover, Brooks Road, Lewes, BN7 2DN** on **Thursday 24 July 2014** at **2.30 p.m.** for the following purposes.

As ordinary business to consider and, if thought fit, pass resolutions 1 to 8 as ordinary resolutions.

ORDINARY BUSINESS

1. To receive and adopt the Report of the Directors, the Report of the Independent Auditors and the audited financial statements for the year ended 31 March 2014.

2. To receive, approve and adopt the Directors' Remuneration Report (other than the part containing the Directors' Remuneration Policy) for the year ended 31 March 2014.

3. To receive, approve and adopt the part of the Directors' Remuneration Report containing the Directors' Remuneration Policy contained within the financial statements of the Company for the year ended 31 March 2014.

4. To re-elect Mr S G M Caffyn, who retires by rotation and offers himself for re-appointment by general meeting, as a director of the Company.

5. To re-elect Mr M S Harrison, who retires by rotation and offers himself for re-appointment by general meeting, as a director of the Company.

6. To re-appoint as a director of the Company Mr N T Gourlay, who has been appointed since the last Annual General Meeting, and offers himself for re-appointment in accordance with the Company's Articles of Association.

7. To re-appoint Grant Thornton UK LLP as auditor and to authorise the directors to determine the auditor's remuneration.

8. To declare a final dividend of 12 pence per share on each of the Company's ordinary shares for the financial year ended 31 March 2014.

SPECIAL BUSINESS

As special business to consider and, if thought fit, pass resolution 9 as an ordinary resolution and resolutions 10 to 12 as special resolutions.

9. That the directors be and are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot equity securities (as defined in section 560 of the Act) up to an aggregate nominal amount of £459,536. This authority shall, unless previously revoked, varied or renewed by the Company in general meeting, expire on the conclusion of the next Annual General Meeting of the Company following the passing of this resolution or, if earlier, the date 15 months after the date of passing this resolution, save that the Company may before such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the power and authority conferred by this resolution had not expired.

10. That the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (as defined in section 693(4) of the Act) of ordinary shares of £0.50 each in the capital of the Company ("Ordinary Shares") in such manner and on such terms as the directors of the Company may from time to time determine, and where such shares are held as treasury shares, the Company may use them for the purposes set out in sections 727 or 729 of the Act, including for the purpose of its employee share schemes, provided that:

    (a) the maximum number of Ordinary Shares hereby authorised to be purchased is 413,581;

    (b) the minimum purchase price which may be paid for any Ordinary Share is 50 pence (exclusive of expenses);

    (c) the maximum purchase price which may be paid for any Ordinary Share is the higher of (in each case exclusive of expenses):

        (i) an amount equal to 105% of the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made; and

(ii) an amount equal to the higher of the price of the last independent trade and the highest current independent bid as derived from the London Stock Exchange's trading system known as SETSqx,

and this authority shall take effect on the date of passing of this resolution and shall (unless previously revoked, renewed or varied) expire on the conclusion of the next Annual General Meeting of the Company following the passing of this resolution or, if earlier, 15 months after the date of passing of this resolution, save in relation to purchases of Ordinary Shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry.

11. That, subject to the passing of resolution 9 above, the directors be and are hereby generally and unconditionally given power for the purposes of section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by resolution 9 above or where the allotment constitutes an allotment by virtue of section 560(3) of the Act, in each case as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to:

(i) the allotment of equity securities in connection with an offer of equity securities (but in the case of an allotment pursuant to the authority granted under resolution 9, such power shall be limited to the allotment of equity securities in connection with an offer by way of a rights issue only) to:

(A) the holders of Ordinary Shares in the Company in proportion (as nearly as may be practicable) to the respective numbers of Ordinary Shares held by them; and

(B) holders of other equity securities, as required by the rights of those securities or, subject to such rights, as the directors of the Company otherwise consider necessary,

and so that the directors of the Company may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter;

(ii) the grant of options to subscribe for shares in the Company, and the allotment of such shares pursuant to the exercise of options granted, under the terms of any share option scheme adopted or operated by the Company (including the Sharesave Scheme); and

(iii) the allotment of equity securities, other than pursuant to paragraphs (i) and (ii) above of this resolution, up to an aggregate nominal amount of £68,930.

This power shall (unless previously renewed, varied or revoked by the Company in general meeting) expire at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution or, if earlier, on the date 15 months after the passing of such resolution, save that the Company may before the expiry of this power make any offer or enter into any agreement which would or might require equity securities to be allotted, or treasury shares sold, after such expiry and the directors may allot equity securities or sell treasury shares in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired.

12. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By order of the Board

Sarah J Caffyn
Company Secretary
Registered Office:
Meads Road
Eastbourne
East Sussex
BN20 7DR

Company number: 105664

Notes:

1. At the date of this notice, the issued share capital of the Company, excluding those shares held in treasury, was 2,757,213 Ordinary Shares of £0.50 each and the total number of voting rights was 4,757,213. This takes into account the 2,000,000 6% Second Cumulative Preference Shares of £0.10 each. As at the date of this notice the Company holds 137,861 shares in treasury, representing 5.0 per cent of the total issued ordinary share capital of the Company (excluding treasury shares) as at the date of this notice.

2. Only holders of Ordinary Shares and 6% Second Cumulative Preference Shares are entitled to attend and vote at this meeting. A member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting and at any adjournment of it. A member may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. If a proxy appointment is submitted without indicating how the proxy should vote on any resolution, the proxy will exercise his discretion as to whether and, if so, how he votes. (If you are not a holder of Ordinary Shares or 6% Second Cumulative Preference Shares but you have been nominated by a member of the Company to enjoy information rights, you do not have any right to appoint one or more proxies and should read note 15 below.)

3. A proxy need not be a member of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you do not have a proxy form and believe that you should have one, or if you require additional forms, please contact our shareholder helpline on 0871 664 0300 if calling within the United Kingdom or +44 20 8639 3399 if calling from outside the United Kingdom or write to the Company's registrars, Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF. Lines are open 8:30 a.m. – 5:30 p.m. Mon–Fri. Calls to the helpline from within the United Kingdom cost 10 pence per minute (including VAT) from a BT landline. Other service providers' costs may vary. Call to the helpline from outside the United Kingdom will be charged at applicable international rates. Calls may be recorded and monitored for security and training purposes. Members may also appoint a proxy through the CREST electronic proxy appointment service as described in note 12 below.

4. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand by the Company's registrar, Capita Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 42F no later than 48 hours before the start of the meeting, together with, if appropriate, the power of attorney or other authority (if any) under which it is signed or a duly certified copy of that power or authority.

5. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in note 12(a) below) will not prevent a member attending the meeting and voting in person if he/she wishes to do so.

6. A vote withheld option is provided on the form of proxy to enable you to instruct your proxy not to vote on any particular resolution, however, it should be noted that a vote withheld in this way is not a 'vote' in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

7. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company at 6:00 p.m. on 22 July 2014 (or, in the event of any adjournment, 6:00 p.m. on the date which is two days before the time of the adjourned meeting). Changes to entries on the register of members after 6:00 p.m. on 22 July 2014 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

8. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

9. If a member submits more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

10. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (i) to do so would interfere unduly with the preparation for the meeting or would involve the disclosure of confidential information or (ii) the answer has already been given on a website in the form of an answer to a question or (iii) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

11. Copies of the service agreements of the executive directors and the letters of appointment of the non-executive directors will be available for inspection during normal business hours from the date of dispatch of this notice until the date of the meeting (Saturdays, Sundays and public holidays excepted) at the registered office of the Company and at the office of the Company's solicitors (Taylor Wessing LLP, 5 New Street Square, London, EC4A 3TW) and will also be made available for inspection at the place of the Annual General Meeting for a period of 15 minutes prior to and during the continuance of the meeting.

12. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for our Annual General Meeting to be held on Thursday 24 July 2014 and any adjournment(s) of the meeting by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Please note the following:

    (a) In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in this notice of the Annual General Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST applications host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

    (b) CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

    (c) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

13. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

14. A copy of this notice, and other information required by section 311A of the Act can be found at www.caffynsplc.co.uk.

15. *Note to nominated persons* – Any person to whom this notice is sent who is a person nominated under section 146 of the Act to enjoy information rights (a "**Nominated Person**") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights. The statement of the rights of shareholders in relation to the appointment of proxies in note 2 above does not apply to Nominated Persons. The rights described in these notes can only be exercised by shareholders of the Company.

16. Except as provided above, members who wish to communicate with the Company in relation to the meeting should do so using the following means:

    (a) calling our shareholder helpline as detailed in note 3; or

    (b) writing to the Company Secretary, Caffyns plc, Meads Road, Eastbourne, East Sussex, BN20 7DR.

    No other methods of communication will be accepted.

EXPLANATORY NOTES

Report and Accounts (Resolution 1)

The directors of the Company must present the accounts to the meeting.

Directors' Remuneration Report: implementation report (Resolution 2)

In line with legislation, this vote will be advisory and in respect of the overall remuneration package and not specific to individual levels of remuneration. You can find the Director's Remuneration Report on pages 18 to 30 of the Company's Annual Report and financial statements.

Directors' Remuneration Report: remuneration policy (Resolution 3)

The purpose of resolution 3 is to seek approval of the Company's policy on the remuneration of the executive and non-executive directors. You can find this policy on pages 19 to 21 of the Company's Annual Report and financial statements.

If the policy is approved, directors will only be able to make payments to directors in line with that policy. The next time shareholders will be asked to approve such policy will be at the Company's Annual General Meeting in 2017. This is unless the Company believes it is necessary to introduce a new remuneration policy or make changes to the existing approved policy before that date. In these circumstances the remuneration policy will be put back to shareholders for approval either at an Annual General Meeting, or an interim general meeting.

If the policy is not approved the Company will resubmit a policy to shareholders for approval at a general meeting which will take place before the end of the current financial year.

Re-election of directors (Resolutions 4 & 5)

The Company's Articles of Association require that one third of the board of directors retires by rotation every year.

At this meeting, Mr S G M Caffyn and Mr M S Harrison will retire and stand for re-election as directors. Having considered the performance of and contribution made by each of the directors standing for re-election the Board remains satisfied that the performance of each of the relevant directors continues to be effective and to demonstrate commitment to the role and, as such, recommends their re-election.

Reappointment of a director (Resolution 6)

The Company's Articles of Association require that a director appointed since the last Annual General Meeting must retire at the following Annual General Meeting and is then eligible to stand for election.

Reappointment and remuneration of auditors (Resolution 7)

Resolution 7 proposes the reappointment of Grant Thornton UK LLP as auditor of the Company and authorises the directors to set their remuneration.

Declaration of a dividend (Resolution 8)

A final dividend can only be paid after the shareholders at a general meeting have approved it. A final dividend of [12] pence per Ordinary Share is recommended by the directors for payment to shareholders who are on the register of members at the close of business on 27 June 2014. If approved, the date of payment of the final dividend will be 31 July 2014.

Directors' authority to allot securities (Resolution 9)

Your directors may only allot Ordinary Shares or grant rights over Ordinary Shares if authorised to do so by shareholders. The authority granted at the last Annual General Meeting is due to expire at the conclusion of this year's Annual General Meeting. Accordingly, this resolution seeks to grant a new authority to the directors to allot unissued share capital of the Company and will expire at the conclusion of the next Annual General Meeting of the Company in 2015 or, if earlier, on 24 October 2015 (the date which is 15 months after the date of passing of the resolution). There is no present intention of exercising this authority, which would give directors authority to allot relevant securities up to an aggregate nominal value of £459,536 (919,072 shares in the Company of 50 pence each), approximately one-third (33.33 per cent) of the Company's issued ordinary share capital (excluding treasury shares) as at the date of this notice.

Authority to purchase own shares (Resolution 10)

In certain circumstances, it may be advantageous for the Company to purchase its own shares and resolution 10 seeks the authority from shareholders to continue to do so. The directors will continue to exercise this power only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases is in the best interests of shareholders generally. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account when exercising this authority.

Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly, save that the Company may hold in treasury any of its own shares that it purchases pursuant to the Act and the authority conferred by this resolution. This gives the Company the ability to re-issue treasury shares quickly and cost-effectively and provides the Company with greater flexibility in the management of its capital base. It also gives the Company the opportunity to satisfy employee share scheme awards with treasury shares. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the Company's assets may be made to the Company in respect of the treasury shares.

The resolution specifies the maximum number of Ordinary Shares that may be acquired (approximately 15 per cent of the Company's issued ordinary share capital as at the date of this notice) and the maximum and minimum prices at which they may be bought.

Resolution 9 will be proposed as a special resolution to provide the Company with the necessary authority. If given, this authority will expire at the conclusion of the next Annual General Meeting of the Company in 2015 or, if earlier, 24 October 2015 (the date which is 15 months after the date of passing of the resolution).

The directors intend to seek renewal of this power at subsequent Annual General Meetings.

There were no warrants and options to subscribe for Ordinary Shares that were outstanding as at the date of this notice.

Disapplication of pre-emption rights (Resolution 11)

Under section 561 of the Act, if the directors wish to allot any of the unissued shares or grant rights over shares or sell treasury shares for cash (other than pursuant to an employee share scheme) they must in the first instance offer them to existing shareholders in proportion to their holdings. There may be occasions, however, when the directors will need the flexibility to finance business opportunities by the issue of Ordinary Shares without a pre-emptive offer to existing shareholders. This cannot be done unless the shareholders have first waived their pre-emption rights.

Resolution 11 asks the shareholders to do this and, apart from rights issues or any other pre-emptive offer concerning equity securities and the grant of share options, the authority will be limited to the issue of shares for cash up to a maximum number of £68,930 (137,860 shares in the Company of 50 pence each) (which includes the sale on a non pre-emptive basis of any shares held in treasury), which is equivalent to approximately 5 per cent of the Company's issued ordinary share capital as at the date of this notice. The Company undertakes to restrict its use of this authority to a maximum of 7.5 per cent of the Company's issued ordinary share capital in any three year period. Shareholders will note that this resolution also relates to treasury shares and will be proposed as a special resolution.

This resolution also seeks a disapplication of the pre-emption rights on a rights issue so as to allow the directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas shareholders. If given, the authority will expire at the conclusion of the next Annual General Meeting of the Company in 2015 or, if earlier, 24 October 2015 (the date which is 15 months after the date of passing of the resolution).

Notice of general meetings (Resolution 12)

Resolution 12 is required to amend a regulation contained in the Shareholder Rights Directive. The regulation in the Shareholder Rights Directive increased the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than an AGM) on 14 clear days' notice and would like to preserve this ability. In order to be able to do so, shareholders must have approved the calling of meetings on 14 days' notice. The Board confirms that it will only use the shorter notice period where it is merited by the purpose of the meeting. Resolution 12 seeks such approval. The approval will be effective until the Company's next Annual General Meeting when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Directive before it can call a general meeting on 14 days' notice.

Shareholder Notes

Our Dealerships . . .

AUDI
BRIGHTON: 200 Dyke Road, Brighton BN1 5AT *(01273) 553061*
EASTBOURNE: Edward Road, Eastbourne BN23 8AS *(01323) 525700*
WORTHING: Broadwater Road, Worthing BN14 8AH *(01903) 231111*

LAND ROVER
LEWES: Brooks Road, Lewes BN7 2DN *(01273) 473186*

SKODA
ASHFORD: The Boulevard, Ashford TN24 0GA *(01233) 504600*
TUNBRIDGE WELLS: North Farm Industrial Estate, Tunbridge Wells TN2 3EL *(01892) 530430*

SEAT
TUNBRIDGE WELLS: North Farm Industrial Estate, Tunbridge Wells TN2 3EL *(01892) 530430*

VAUXHALL
ASHFORD: Monument Way, Orbital Park, Ashford TN24 0HB *(01233) 504604*
TUNBRIDGE WELLS: North Farm Industrial Estate, Tunbridge Wells TN2 3EL *(01892) 530430*

VOLKSWAGEN
GORING-ON-SEA: Nightingale Avenue, Worthing BN12 6FH *(01903) 837878*
HAYWARDS HEATH: Station Garage, Market Place, Haywards Heath RH16 1DN *(01444) 451511*
EASTBOURNE: Hammonds Drive, Eastbourne BN23 6PW *(01323) 647141*
HOVE: Victoria Road, Portslade BN41 1YD *(01273) 425600*

VOLVO
EASTBOURNE: Lottbridge Drove, Eastbourne BN23 6PJ

HEAD OFFICE
EASTBOURNE: Meads Road, Eastbourne BN20 7DR *(01323) 730201*

Meads Road, Eastbourne, East Sussex, BN20 7DR