CAFFYNS

Caffyns Annual Report ***2013***

Contents

Showroom, Volkswagen
Haywards Heath

Showroom, Volkswagen
Hove

Volkswagen, Hove

Results at a Glance

Summary

	2013 £'000	2012 £'000
Revenue	**164,965**	170,192
Reported profit before tax	**1,522**	1,456
Adjusted EBITDA*	**2,981**	2,568
Adjusted operating profit **	**2,110**	1,625
Adjusted profit before tax**	**1,218**	564
Non-underlying items before tax**	**304**	892
	p	p
Earnings per share	**46.6**	51.0
Adjusted earnings per share**	**37.3**	27.2
Proposed final dividend per share	**7.0**	7.0

* Adjusted EBITDA is adjusted operating profit plus underlying depreciation of £871,000

** Adjusted for non-underlying items (as restated)

Highlights

- Underlying profit before tax of £1,218,000 (2012: £564,000).
- Profit before tax of £1,522,000 (2012: £1,456,000).
- Like for like new car unit sales up 18.5%.
- Like for like increase in underlying revenue of 10.6%.
- Adjusted earnings per share of 37.3p (2012: 27.2p).
- Successful disposal of three underperforming businesses.

Directors and Advisors

Honorary President	ALAN M CAFFYN DL C ENG MI MechE FIMI
Directors	RICHARD 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*
	ANDREW R GOODBURN FCA *Non-executive*
	NICHOLAS W HOLLINGWORTH BSc *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 Auditors	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

Operational and Business Review

Summary of results

I am pleased to report that the Group has increased profit before tax in the year ended 31 March 2013 to £1.52m (2012: £1.46m) building on the underlying profits announced at the half year. Profit before tax and non-underlying items is £1.22m, up from £0.56m (as restated) in the previous financial year.

Revenue at £165.0m was down from £170.2m last year, following the closure of three underperforming businesses during the prior year. Underlying revenues on a like for like basis, excluding the disposal of four non-core operations, increased by 10.6%.

The net non-underlying gain of £0.3m comprised gains on the sale of two properties, net of impairments, of £1.72m together with a net credit on the pension scheme of £67,000 less the costs of closing businesses of £1.07m and other redundancies of £0.41m.

Adjusted earnings per share are 37.3p (2012: 27.2p as restated). Basic earnings per share are 46.6p (2012: 51.0p) reflecting a 15% taxation charge this year compared to a tax credit in the previous year.

New and Used Cars

Our new unit sales were up by 18.5% on a like for like basis, while total UK new car registrations rose by 7.2% over the twelve month period. Within this, the private and small business sector rose by 13.2% so we outperformed both the overall UK average and the specific sector in which Caffyns operates. Our premium and premium-volume franchises continue to perform well and new car margins remained firm, with new car gross profits ahead of our internal expectations.

Used car unit sales in the year were up 2.3% on a like for like basis with the second half up 12.0% on a like for like basis.

Aftersales

Total UK new car registrations continue to be below pre-recession levels resulting in a further reduction in the overall size of the 0 to 5 year old car servicing market and a 2.4% decline in like for like aftersales revenues. However, the actions we have taken to enhance our aftersales marketing and retention procedures, together with our improving new and used car sales, are addressing this issue.

Operations

The UK new car retail market is being driven by manufacturer offers to counteract the depressed market in mainland Europe. Our focus on improving operational processes has seen an encouraging increase in new and used car sales and this, along with used finance and aftersales retention, remains at the centre of our drive to enhance profitability.

The new and enlarged showroom and aftersales facilities for our Volkswagen dealership in Brighton are now complete, on schedule and budget, with the business returning to normal trading after the onsite disruption.

Work on the construction of our new Volkswagen dealership in Worthing began in May 2013, with an expected completion early in 2014. The anticipated cost of the development at £4.75m will be partially offset, in due course, by the sale of the existing site occupied by this franchise in Goring.

In Haywards Heath the enlargement of our Volkswagen showroom has been completed. This dealership is situated next to the busy commuter station and our improved facilities are highly visible from the platform.

Operational and Business Review

We have begun trading as a Seat dealer in Tunbridge Wells alongside our Skoda business and will be redeveloping the two showrooms to the new franchise specifications.

As previously reported, our loss-making Ford and Volvo business in Brighton was sold in July 2012 and we also closed our Ford retail dealership in Alton in September 2012.

In February 2013, we acquired a freehold property immediately adjacent to our Land Rover dealership in Lewes. The purchase of this site enables us to operate our aftersales activities at our enlarged dealership, having vacated nearby leasehold premises in April 2013.

In Ashford we are redeveloping our redundant bodyshop building to provide a larger showroom and workshop facility for the growing Skoda franchise.

Restructuring

We announced in July 2011 that we would be ceasing representation of Vauxhall for new car sales in Ashford and Tunbridge Wells when the then current agreements terminated. We now represent Skoda and Seat in the Tunbridge Wells site but, after positive discussions with Vauxhall since the end of our financial year, we have agreed to continue to represent Vauxhall in Ashford. We have seen a considerably improved performance there and we believe that this new arrangement will optimise our return from this important dealership. Trading from these Vauxhall sites has been treated as non-underlying in the period from July 2011 to March 2013.

In addition to these closures and disposals referred to above, we have further reduced central and branch administration costs. The funds generated by these actions will be invested in growing our remaining businesses and in acquiring further operations as and when appropriate opportunities arise.

The total costs attributable to the above restructuring were £1.07m, in addition to which there were redundancy costs of £0.41m.

Property

We operate primarily from freehold properties and our property portfolio provides strategic flexibility to our business model. During the year, we incurred capital expenditure of £3.67m and realised £2.9m net of disposal costs on the sale of our freehold properties at Alton and Goring-by-Sea. Net gains on the disposal of tangible fixed assets were £1.9m.

A valuation of the Company's freehold premises as at 31 March 2012 was carried out by chartered surveyors CBRE Limited on the basis of existing use value. Excluding the three freehold properties being offered for sale at 31 March 2013, the properties were valued at £4.6m over their net book value. In accordance with the Group's accounting policies (which reflect those utilised throughout the industry), this surplus has not been incorporated into the Group's accounts. The directors are advised that there has not been a significant change in values during the year to 31 March 2013.

We have exchanged contracts, conditional upon an appropriate planning approval, for the sale of freehold land in Hailsham for £1.4m. 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 purchase of the freehold property in Lewes, adjacent to our Land Rover dealership, for £2.0m in February 2013, we now occupy about half of the site for our aftersales activities. At the same time, we had terminated a leasehold unit in the vicinity which resulted in termination costs of £183,000. This represented a "one-off" opportunity to consolidate our significant Land Rover operations onto one site. We are examining with our advisors opportunities to redevelop the balance of this site.

The Folkestone site was leased to a tenant in October 2012 and unconditional contracts for the sale of the freehold property were exchanged on 16 May 2013. The proceeds of £495,000, which are the same as book value net of disposal costs, are receivable on completion by 15 August 2013. This property is shown as an asset held for sale in the balance sheet at 31 March 2013.

In Tonbridge we had a vacant leasehold site which was underlet in March 2013 to a third party at the current passing rent.

As a consequence of these various actions on properties, an impairment provision of £178,000 was required in the year.

Bank facilities

Overall bank facilities remain at £18.0m. Facilities from HSBC total £11.0m and include a three year revolving credit facility expiring in March 2015 together with a £3.5m overdraft. We also have a £7.0m overdraft facility provided by Volkswagen Bank. Bank borrowings net of cash balances at 31 March 2013 were £9.84m (2012: £8.7m).

Pension Scheme

The Group has a defined benefit pension scheme which was closed to future accrual in 2010. The directors have very little control over the key assumptions required by the accounting standards in the valuation calculations. Despite an increase in the scheme assets during the year of £5.5m, the deficit, net of deferred tax, increased to £10.5m at 31 March 2013 (2012: £4.8m), mainly due to the reduction in the discount rate used to value the liabilities of the scheme. The discount rate used to value the liabilities is related to the yield on Government securities and this rate has reduced during the year from 5.1% at 31 March 2012 to 4.3% at 31 March 2013, increasing the scheme's liabilities. Each 0.1% reduction in the discount rate increases the liabilities by between £1.0m and £1.5m.

The net financing return and service cost on pension obligations in respect of the defined benefit pension scheme is now presented as a non-underlying item. Prior period figures have been restated on a consistent basis, the result of which was to reduce profit before taxation before non-underlying items by £215,000 for the year ended 31 March 2012. While the total tax charge for the Group is unchanged, the comparative taxation figure in respect of non-underlying items for the previous year has been restated accordingly. The change in accounting policy had no impact upon the balance sheet of the Group.

The triennial valuation as at 31 March 2011 shows a deficit at that date of £14.4m. The Recovery Plan agreed with the trustees requires a cash payment of £375,000 in the year to 31 March 2013 followed by £346,000 in the year to 31 March 2014 increasing by 3.4% per annum thereafter.

The Board continues to work with the trustees to review the available opportunities that could further reduce the deficit.

Operational and Business Review

People

During recent years we have seen considerable restructuring of the Group but throughout this period of change our employees have been very positive in their approach. This has been a difficult period and I should like to thank them personally for their dedication under challenging circumstances.

I am particularly pleased by the success of our apprentice programme. We were delighted to win the South East Regional Apprentice Large Employer of the Year Award and were also recognised as one of the top 100 Apprenticeship Employers of the Year in the UK.

Having served for nine years as a non-executive director, Andrew Goodburn can no longer be considered independent in accordance with the UK Corporate Governance Code and he will retire from the Board this year. We thank him for his excellent contribution to the Board during his period of office. As is our policy, we have engaged independent executive search consultants to recruit a replacement.

Dividend

The Board has decided to recommend a final dividend of 7.0p per Ordinary Share (2012: 7.0p). If approved at the Annual General Meeting, this will be paid on 25 July 2013 to shareholders at close of business on 28 June 2013.

Together with the interim dividend of 5.0p per Ordinary Share (2012: 5.0p) paid during the year, the total dividend for the year will be 12.0p per Ordinary Share (2012: 12.0p).

Strategy

Our overall strategy of focusing on representing premium and premium-volume franchises is delivering positive results.

We continue to invest the proceeds from the sale of properties and closed operations into larger business opportunities in stronger markets to deliver higher returns on capital. Fewer, bigger sites will enable us to deliver performance improvement.

Outlook

Our improved profitability in the second half of last year has continued into the current financial year. We have seen signs of an improvement in consumer confidence with the new car market up 8.9% in the UK in the four months to April 2013. However the market in Europe remains weak and this could affect the levels of manufacturer support available to the UK market. We remain strategically well placed with resilient premium franchises to take advantage of any improvement in economic conditions.

S G M Caffyn
Chief Executive
31 May 2013

Report of the Directors

The directors present their report and financial statements for the year ended 31 March 2013.

Results and dividends

The results of the Group for the year are set out in the financial statements on pages 28 to 64. An interim dividend of 5.0p per share was paid to shareholders on 11 January 2013. The Board is recommending a final dividend of 7.0p per share (2012: 7.0p) making a total of 12.0p per share (2012: 12.0p). Total ordinary dividends paid in the year amounted to £335,000. Dividends paid in the year to preference shareholders were £102,000 as set out in note 9 to the financial statements.

Operational and Business Review and Business Model

The Group's principal activities are the sale and maintenance of motor vehicles including the sale of tyres, oil, parts and accessories. Certain information required by the Companies Act 2006 to be included in the Report of the Directors is contained in the Operational and Business Review on pages 3 to 6. The Operational and Business Review principally covers the development and performance of the business and the external environment. Other requisite disclosures are contained within the Report of the Directors, which includes the principal risks and uncertainties affecting the business. The main financial KPIs of the Group are revenue, profit before tax, earnings per share, unit sales, gearing and cash flow from operations.

Caffyns is one of the leading motor retail and aftersales companies in the south-east of England. The Group has now refocused on the premium and premium-volume market where it believes that there is greater resilience to delivering stronger sales, profits and returns, despite the general economic situation. It now represents a strong portfolio of eight franchises. The Group generally operates from its own freehold properties which it believes offers 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. The Group also prioritises its important internet presence as evidenced by recent Motor Trader awards for the best mobile website and a commendation for our dealer website.

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 Corporate Governance Report on pages 15 to 20. 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.

Report of the Directors

Principal risks	Potential impact/material risk	Key controls and mitigating factors
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.
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.

Principal risks	Potential impact/material risk	Key controls and mitigating factors
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 principle 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.
Changes in EU legislation in relation to the distribution and sale of vehicles	The distribution and sale of vehicles is currently regulated by EU competition law contained in the Motor Vehicle Block Exemption Regulation. This Regulation enables the normal competition rules to be varied and allow restricted networks of distributors and repairers to be established. This approach is due to the relatively high value and technical complexity of motor vehicles. Changes to this legislation could adversely affect the Group's trading activities. The current regulatory regime expires in June 2013, when both new vehicle distribution and motor repair businesses will be brought under new block exemption arrangements. Certain changes as regards specific regulation of the aftermarket have taken effect from June 2010. Limited additional sector specific provisions, tailored to the motor retail markets, have been put in place.	On the whole, these measures reflect a more permissive regime of competition regulation for the primary motor retail market, which could potentially have an adverse effect on franchised business operations. We have representatives on a number of trade bodies to influence lobbying and gain information about forthcoming changes to enable effective mitigating strategies to be formulated.
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.

Report of the Directors

Directors
The directors in office at 31 March 2013 are set out below:

Mr R 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 A R Goodburn FCA joined the Board as a non-executive director on 2 February 2004. He was Finance Director of Ricardo plc until 5 January 2007 at which date he retired, having formerly spent 11 years in various financial and commercial roles within the Bowthorpe Group, followed by 13 years in management consulting before joining Ricardo in 1993.

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 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 S B Birkenhead retired as Chairman and a director on 26 July 2012. Mr G J Ainsley ceased to be a director on 24 October 2012.

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

	As at 31 March 2013		As at 31 March 2012	
	Ord	**10%**	Ord	10%
R Wright	**–**	**–**	–	–
S G M Caffyn	**41,774**	**1,600**	41,774	1,600
M S Harrison	**5,000**	**–**	5,000	–
S J Caffyn	**20,398**	**1,655**	20,398	1,655
A R Goodburn	**3,000**	**–**	3,000	–
N W Hollingworth	**2,500**	**–**	2,500	–

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 2013 was £4.50 and the range of market prices during the year was £3.65 to £4.50.

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 Corporate Governance Report on page 17.

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, they are 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 one month's salary.

Share capital

As at 31 March 2013, 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
1,250,000 10% Cumulative Preference Shares of £1 each	1,250	30.86
3,000,000 6% Cumulative Second Preference Shares of 10p each	300	7.41
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 2010 and applications received from 137 employees. The share options for 130,046 Ordinary Shares granted under the scheme in May 2010 are exercisable upon expiry of a three year savings contract at a pre-determined price of £3.50 per share. There were options over 91,130 Ordinary Shares outstanding as at 31 March 2013.

Significant direct or indirect shareholdings

At 31 May 2013, 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	7.51
EPS Enhancing Earnings Limited	159,000	5.75
R J M Caffyn	139,323	5.04
GAM Exempt UK Opportunities Fund	136,234	4.92
GAM UK Diversified Fund	135,766	4.91
HSBC Republic Bank Suisse SA	128,349	4.64
Caffyns Pension Fund	125,570	4.54
A M Caffyn	108,336	3.92
K E Caffyn	104,804	3.79
Lady D A Caffyn	95,011	3.43
HSBC Global Custody	90,000	3.25
M I Caffyn	86,500	3.13

Significant agreements

The Company has entered into a number of franchise agreements which, in aggregate, are significant and ordinarily would be terminable upon a change of control of the Company.

- Our dealerships operate under franchised new vehicle dealer agreements and authorised repairer agreements with various vehicle manufacturers. Without a franchise agreement, it is not generally possible to obtain new vehicles from a manufacturer or display vehicle manufacturer trademarks. Whilst some of the franchise agreements contain provisions entitling the vehicle manufacturers to terminate in the event of a change of control, this entitlement is circumscribed by the applicable EU Regulation 1400/2002 (commonly known as the Motor Vehicle Block Exemption) which says that, in the event of a change of control, a vehicle manufacturer is unable to terminate either the franchise agreements or authorised repairer agreements held by the Group if the new controlling entity already holds that manufacturer's brand of franchise. The contracts that the Company has with Vauxhall Motors Limited expire in July 2013.

- Facilities agreements dated 20 March 2012 with HSBC Bank plc under which it agreed to make available revolving facilities to the Company up to an aggregate sum of £7.5m. In addition, facilities agreements dated 13 August 2012 for overdraft facilities with HSBC Bank plc of £3.5m and dated 24 April 2013 with Volkswagen Bank of £7.0m. In the event of a change of control, both banks are able to cancel the facilities at which time all sums due under the facilities become immediately due and payable.

Report of the Directors

Employees

The Company supports the recruitment of disabled people wherever possible. Priority is given to those who become disabled during their employment. All employees have opportunities for training, career development and promotion in accordance with their skills and abilities. The Company continues its practice of keeping all its employees informed on matters affecting them by means of the Company's intranet and takes account of the views of employees wherever possible.

Charitable and political contributions

Donations to charitable organisations amounted to £4,669 (2012: £4,196). No contributions were made to political organisations.

Creditors payment policy and practice

It is the Company's policy to settle the terms of payment with all its suppliers at the time an order is placed, ensuring that suppliers are aware of the terms of payment and to abide by the agreed terms. At 31 March 2013 the Company's outstanding purchase ledger balances represented 22 days' purchases (2012: 22).

Property

The Company last valued its portfolio of freehold premises as at 31 March 2012 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 three properties which the Company had offered for sale, the excess of the valuation over net book value as at 31 March 2013 was £4.6m. In accordance with the Company's accounting policies, this surplus has not been incorporated into the accounts.

Post balance sheet events

An unconditional contract was exchanged on 15 May 2013 for the sale of a freehold site in Folkestone, held as an asset for sale at 31 March 2013, at a sale price of £495,000. Completion on the sale is due not later than 15 August 2013 and the consideration is payable in cash.

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.

By order of the Board

S J Caffyn
Company Secretary
31 May 2013

Corporate Governance Report

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 2010 ("the Code").

The Company has complied throughout the year ended 31 March 2013 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 is deemed not be independent after 2 February 2013 in accordance with Code provision B.1.1. The Nominations Committee is currently in the process of engaging a non-executive director to replace Mr Goodburn and, subsequent to an appointment being made, Mr Goodburn will resign his position.

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 17 to 18 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 2013) 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 31 May 2013 the Board comprises three executive directors and three non-executive directors, one of whom is the Chairman. Mr R 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. Mr A R Goodburn completed nine years in office as a non-executive director on 2 February 2013 and is no longer considered to be independent in accordance with the UK Corporate Governance Code and will retire from the Board this year. As is our policy, we have engaged independent executive search consultants to recruit a replacement. The other 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 one meeting 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 Wright (Chairman)
A R Goodburn
N W Hollingworth
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 Richard 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. One meeting was directly concerned with the appointment of a new non-executive director to replace Mr A R Goodburn. 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:

A R Goodburn (Chairman)
N W Hollingworth
R Wright

The Committee is chaired by Mr A R Goodburn 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 auditors 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 service;
- reviewing the external auditors' performance;
- recommending to the Board the reappointment, or not, of the external auditors; and
- reviewing the audit fee.

The Committee met three times in the year under review. It has reviewed the effectiveness of the Company's system of internal control and financial risk management during the year ended 31 March 2013, 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.

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.

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.

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.

Non-audit services provided by the external auditors

Non-audit services provided by the Company's auditors 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 auditors' 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 auditors

As part of this year's decision to recommend the reappointment of the auditors, the Audit Committee has taken into account the tenure of the auditors 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 auditors.

The Audit Committee is also responsible for advising the Board on the appointment of the auditors, 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.

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.

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 despatched 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 34.

Information concerning the Group's liquidity and financing risk are set out on page 8 of the Report of the Directors and note 17 to the financial statements.

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.

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.

Approved by order of the Board

S J Caffyn
Company Secretary
31 May 2013

Directors' Remuneration Report

The Company's remuneration policy is determined by the Board. The Remuneration Committee has considered the Directors' Remuneration Report and recommended it for adoption by the Board. This Report is subject to an advisory vote at the Company's forthcoming Annual General Meeting.

The Remuneration Committee

During the year under review, the Remuneration Committee comprised the following non-executive directors, biographical details of which are set out on page 10:

N W Hollingworth (Chairman)
A R Goodburn
R Wright

The Committee met three times during the year and all members were present.

The Remuneration Committee determines, on behalf of the Board, the Company's policy on executive directors' remuneration and of senior management as well as the individual remuneration packages of executive directors within the framework of this policy. The Remuneration Committee has access to independent advice where it considers it appropriate. The Committee also sets the performance targets for any performance related incentives applicable to executive directors, and determines the policy for, and scope of, their pension arrangements and service contract terms relating to benefits in kind and severance. The Committee is also responsible for ensuring that the Company gives due regard to best practice and complies with all applicable regulations in relation to executive remuneration.

The terms of reference of the Committee, which are available on the Company's website, are that it determines, without reference to the Board, the pay and benefits of the executive directors in the light of the recommendations of the Chief Executive (other than in relation to himself). It is also responsible for reviewing and recommending appropriate incentive schemes for directors and employees.

Remuneration policy

The policy is to ensure that the directors are fairly rewarded for their individual contribution to the Group's overall performance. Executive directors' remuneration packages are designed to attract, motivate and retain directors of the calibre necessary to achieve the Group's objectives and to ensure that the Group is managed successfully in the interests of shareholders. In assessing the appropriate level and structure of remuneration for each individual, regard is given to the necessity to pay a competitive basic rate as well as ensuring that the overall package takes into account levels of remuneration elsewhere in the Group. Any incentives paid in addition are linked to corporate performance. The remuneration policy is designed to ensure that all incentive arrangements are linked to Group performance and the criteria set for full vesting of incentives are suitably challenging. There are three main elements to the executive directors' remuneration packages:

a) Basic annual salary and benefits in kind

The Committee reviews each executive director's basic salary annually with effect from 1 April in each year. In deciding upon appropriate levels of remuneration, the Committee has regard to rates of pay for similar jobs in comparable companies in the sector as well as internal factors such as performance. Benefits provided include Company cars, membership of the Company's medical insurance scheme and payment of business related subscriptions. Given the prevailing economic conditions, base salaries of executive directors in office at 31 March 2013 have not increased since 1 April 2008. An increase of 2% to the basic annual salary of the executive directors has been awarded with effect from 1 April 2013.

b) Annual bonus

All executive directors participate in an annual incentive payment scheme payable upon the Group exceeding predetermined profit level targets and at the discretion of the Remuneration Committee. These payments are pensionable.

c) Pensions

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. The defined benefit scheme operated by the Company was closed to future accrual with effect from 1 April 2010, from which date executive directors are eligible to join the Company's defined contribution scheme on the same terms as staff generally.

Directors' terms of appointment

Executive directors are appointed under service contracts of indefinite duration whereas non-executive directors each have a fixed term appointment renewable upon expiry, at the Company's discretion. Mr S G M Caffyn has a two-year rolling service contract, such contract commencing on 16 July 1990. It is the Remuneration Committee's view that this contract is fully in the Company's interest and indeed it would be disadvantageous to the Company to seek to revoke this contract in order to enforce a change in the terms. Policy with regard to new contracts entered into with executive directors in the future will take into account all relevant factors, including the need to attract and retain high quality executive talent and the most appropriate balance between length of notice period, remuneration and other aspects of employment contracts. The terms covering compensation for loss of office are set out on page 11.

Mr M S Harrison and Miss S J Caffyn have one-year rolling contracts which commenced on 17 April 2000 and 28 April 2003 respectively.

Details of non-executive directors are as follows:

Name	Commencement	Expiry	Unexpired term at date of report (months)
R Wright	1 November 2011	1 November 2014	29
A R Goodburn	1 February 2010	1 February 2013	–
N W Hollingworth	1 February 2011	1 February 2014	20

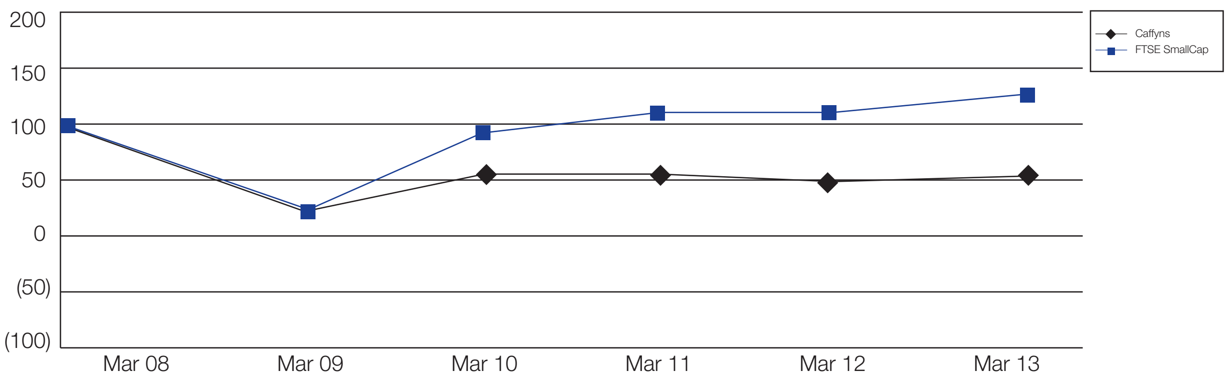
Fees from external directorships

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 or similar. This would be decided on a case by case basis.

Share price performance graph

The following graph shows the Company's performance, measured by total shareholder return, ("TSR"), in comparison to the FTSE SmallCap Index for the past five years. TSR represents share value growth, assuming that dividends paid are reinvested. The Company has been benchmarked against the FTSE SmallCap Index, which is considered to be an appropriate comparison to other public companies of a similar size.

Total shareholder return – 31 March 2008 to 31 March 2013



AUDITED INFORMATION

Directors' emoluments

	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Comp-ensation for loss of office £'000	In lieu of Company pension contri-butions* £'000	**2013 Total £'000**	**2013 Company pension contri-butions £'000**	2012 Total £'000	2012 Company pension contri-butions £'000
Executive directors									
S G M Caffyn	249	12	12	–	7	**280**	**–**	268	–
M S Harrison	170	9	11	–	4	**194**	**–**	187	6
G J Ainsley	85	–	6	130	–	**221**	**3**	153	5
S J Caffyn	81	2	4	–	2	**89**	**–**	86	3
Non-executive directors									
R Wright	43	–	–	–	–	**43**	**–**	8	–
S B Birkenhead	18	–	–	–	–	**18**	**–**	55	–
A R Goodburn	20	–	–	–	–	**20**	**–**	20	–
N W Hollingworth	20	–	–	–	–	**20**	**–**	20	–
	686	23	33	130	13	**885**	**3**	797	14

**With effect from 1 April 2006, the Company ceased making contributions to the pension arrangements of Mr S G M Caffyn, his basic salary being increased by an equivalent amount in lieu of such contributions. This resulted from the change in pension arrangements following the rule changes referred to as "pension simplification" from 6 April 2006 ("A" day). The same arrangements also resulted from further changes to these rules with effect from 1 April 2012 when the Company ceased making contributions to the pension arrangements of Mr M S Harrison and Miss S J Caffyn, their basic salary being increased by an equivalent amount in lieu of such contributions. Pension contributions continued to be paid to the Company's defined contribution scheme in respect of Mr G J Ainsley until he ceased to be a director on 24 October 2012.*

Remuneration of non-executive directors

The non-executive directors receive a fee which is agreed by the Board, following a recommendation by the executive directors. They received a fee during the year of £19,800 per annum with the exception of the Chairman during the year who received a fee at the rate of £54,500 per annum. There has been no change to these rates since 1 April 2008. Following a review of an external report on non-executive directors' pay, with effect from 1 April 2013 the fees for the non-executive directors have been increased to £26,000 per annum and the Chairman's fee increased by 2%.

Pensions

Three executive directors are deferred members of the Company's closed defined benefit pension scheme ("the DB Scheme") at the year-end (2012: 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:

	Additional accrued benefits earned in the year £'000	**Total annual accrued pension at 31 March 2013 £'000**
S G M Caffyn	**3**	**109**
M S Harrison	**1**	**32**
S J Caffyn	**1**	**32**

	Transfer value at 31 March 2013 £'000	Transfer value at 31 March 2012 £'000	**Increase/ (decrease) in transfer value £'000**
S G M Caffyn	**1,810**	1,695	**115**
M S Harrison	**532**	498	**34**
S J Caffyn	**242**	244	**(2)**

The changes in the year exclude the elements due to inflation and transferred-in benefits.

Normal retirement age is 65. On early retirement before age 65, accrued pension is discounted by 5% per annum (2012: 4%) 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 2013. 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 2013, one director was a member of the Company's Defined Contribution Scheme (2012: three). 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.

N W Hollingworth
Chairman of the Remuneration Committee
31 May 2013

Directors’ Responsibilities

Statement of directors’ responsibilities
The directors are responsible for preparing 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 statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). 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 the profit or loss of the parent 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company’s transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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, 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.

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.

We confirm that 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 Operational and Business Review and the Report of the Directors 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*
31 May 2013	

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 2013 which comprise the Group and parent Company income statements, the Group and parent Company statements of comprehensive income, the Group and parent Company balance sheets, the Group and parent Company statements of changes in equity, the Group and parent Company cash flow statements 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.

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 set out on page 25, 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 APB’s website at www.frc.org.uk/apb/scope/private.cfm.

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 2013 and of the Group’s and the parent Company’s profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; 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.

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; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Statement of Corporate Governance set out on pages 15 to 20 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 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 of Corporate Governance has not been prepared by the Company.

Under the Listing Rules, we are required to review:

- the directors ents of the report to the shareholders by the Board on directors' remuneration.

Robert Napper

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

31 May 2013

Income Statement

for the year ended 31 March 2013

Group and Company

	Note	Underlying £'000	Non-underlying (note 2) £'000	**2013 £'000**	Underlying (as restated)* £'000	Non-underlying (note 2) (as restated)* £'000	2012 £'000
Revenue	1	150,847	14,118	**164,965**	154,375	15,817	170,192
Cost of sales		(131,969)	(12,117)	**(144,086)**	(134,282)	(13,816)	(148,098)
Gross profit		18,878	2,001	**20,879**	20,093	2,001	22,094
Operating expenses							
Distribution costs		(11,030)	(1,750)	**(12,780)**	(11,910)	(2,065)	(13,975)
Administration expenses		(5,738)	(1,727)	**(7,465)**	(6,558)	(1,273)	(7,831)
Operating profit before other income		2,110	(1,476)	**634**	1,625	(1,337)	288
Other income (net)	2	–	1,718	**1,718**	–	2,024	2,024
Operating profit	3	2,110	242	**2,352**	1,625	687	2,312
Finance expense	5	(892)	(25)	**(917)**	(1,061)	(32)	(1,093)
Finance income on pension scheme	6	–	87	**87**	–	237	237
Net finance (expense)/income		(892)	62	**(830)**	(1,061)	205	(856)
Profit before taxation		1,218	304	**1,522**	564	892	1,456
Income tax (expense)/credit	7	(186)	(47)	**(233)**	192	(232)	(40)
Profit for the year from continuing operations		1,032	257	**1,289**	756	660	1,416
Earnings per share continuing operations							
Basic	8			**46.6p**			51.0p
Diluted	8			**45.2p**			49.1p

* See note 2

See accompanying notes to the financial statements.

Statement of Comprehensive Income

for the year ended 31 March 2013

Group and Company

	Note	**2013 £'000**	2012 £'000
Profit for the year		**1,289**	1,416
Other comprehensive income:			
Defined benefit plan actuarial loss recognised	20	**(7,843)**	(1,196)
Deferred tax on actuarial loss	21	**1,804**	287
Total other comprehensive income, net of taxation		**(6,039)**	(909)
Total comprehensive income for the year		**(4,750)**	507

See accompanying notes to the financial statements.

Balance Sheets

at 31 March 2013

	Note	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Non-current assets					
Property, plant and equipment	11	**31,073**	26,669	**31,073**	26,669
Investment property	12	**528**	532	**528**	532
Goodwill	10	**286**	286	**286**	286
Deferred tax asset	21	**1,743**	172	**1,743**	172
Investment in subsidiary undertakings	13	**–**	–	**250**	250
		33,630	27,659	**33,880**	27,909
Current assets					
Inventories	14	**25,650**	25,722	**25,650**	25,722
Trade and other receivables	15	**6,174**	6,712	**6,174**	6,712
Cash and cash equivalents		**1,159**	22	**1,159**	22
Non-current assets classified as held for sale	11	**446**	3,180	**446**	3,180
		33,429	35,636	**33,429**	35,636
Total assets		**67,059**	63,295	**67,309**	63,545
Current liabilities					
Interest bearing loans and borrowings	16	**3,500**	1,219	**3,500**	1,219
Trade and other payables	18	**25,658**	26,501	**25,908**	26,751
Current tax payable		**208**	208	**208**	208
		29,366	27,928	**29,616**	28,178
Net current assets		**4,063**	7,708	**3,813**	7,458
Non-current liabilities					
Interest bearing loans and borrowings	16	**7,500**	7,500	**7,500**	7,500
Preference shares	22	**1,237**	1,237	**1,237**	1,237
Retirement benefit obligations	20	**13,641**	6,260	**13,641**	6,260
		22,378	14,997	**22,378**	14,997
Total liabilities		**51,744**	42,925	**51,994**	43,175
Net assets		**15,315**	20,370	**15,315**	20,370
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	**120**	96	**120**	96
Retained earnings		**10,812**	15,891	**10,812**	15,891
Total equity attributable to shareholders of Caffyns plc		**15,315**	20,370	**15,315**	20,370

The financial statements were approved by the Board of directors on 31 May 2013 and were signed on its behalf by:

R Wright
Director
31 May 2013

M S Harrison
Director

See accompanying notes to the financial statements.

Company number: 105664

Statement of Changes in Equity

for the year ended 31 March 2013

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 2012	1,439	272	282	2,390	96	15,891	20,370
Total comprehensive income							
Profit for the period	–	–	–	–	–	1,289	1,289
Other comprehensive income	–	–	–	–	–	(6,039)	(6,039)
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**

for the year ended 31 March 2012

	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 2011	1,439	272	282	2,419	72	15,786	20,270
Total comprehensive income							
Profit for the period	–	–	–	–	–	1,416	1,416
Other comprehensive income	–	–	–	–	–	(909)	(909)
Realised surpluses on disposal of land and buildings	–	–	–	(29)	–	29	–
Total comprehensive income for the year	–	–	–	(29)	–	536	507
Transactions with owners:							
Dividends	–	–	–	–	–	(335)	(335)
Purchase of own shares (net)	–	–	–	–	–	(104)	(104)
Issue of shares – SAYE scheme	–	–	–	–	–	8	8
Share-based payment	–	–	–	–	24	–	24
At 31 March 2012	1,439	272	282	2,390	96	15,891	20,370

Cash Flow Statement

for the year ended 31 March 2013

Group and Company

	Note	**2013 £'000**	2012 £'000
Net cash outflow from operating activities	23	**(41)**	(2,046)
Investing activities			
Proceeds on disposal of property, plant and equipment		**2,896**	4,557
Purchases of property, plant and equipment		**(3,670)**	(2,703)
Net cash (outflow)/inflow from investing activities		**(774)**	1,854
Financing activities			
Secured loans repaid		**–**	(3,000)
Secured loans received		**–**	2,500
Purchase of own shares		**–**	(104)
Issue of shares – SAYE scheme		**3**	8
Dividends paid		**(332)**	(335)
Net cash outflow from financing activities		**(329)**	(931)
Net decrease in cash and cash equivalents		**(1,144)**	(1,123)
Cash and cash equivalents at beginning of year		**(1,197)**	(74)
Cash and cash equivalents at end of year		**(2,341)**	(1,197)

	31 March 2013 £'000	31 March 2012 £'000
Cash and cash equivalents	**1,159**	22
Overdrafts	**(3,500)**	(1,219)
Net cash and cash equivalents	**(2,341)**	(1,197)

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 2012 apart from the disclosure of the pension charge to the Income Statement. This change is explained in the accounting policy on "Non-underlying items" on page 35.

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.

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:

'Improvements to IFRS' (issued in May 2010). The improvements project contains numerous amendments to IFRS that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2011, with earlier application permitted. No material changes to accounting policies have arisen as a result of these amendments.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the year ending 31 March 2013 but are not currently relevant to the Group:

- Amendment to IFRS 7 – Disclosures – Transfers of Financial Assets

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	Investments in Associates and Joint Ventures	1 January 2014
IFRS 9 *	Financial instruments: Classification and measurement	1 January 2015
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
IFRS 13	Fair Value Measurement	1 January 2014
IAS 1 (Revised)	Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 27 (Revised)	Separate financial statements	1 January 2013
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2012
Amendment to IFRS 7	Offsetting Financial Assets and Financial Liabilities	1 January 2013

* Not yet adopted by EU

Adoption of new and revised standards and new standards and interpretations not yet adopted (continued)
The directors are currently assessing the impact of these new accounting standards on the accounting policies of the Group. The amendments to IAS 19, which are effective from 1 January 2013, include the calculation of the return on assets no longer being based on the underlying assets of the scheme but will in future be calculated by reference solely to bond yields. This will negatively impact the expected return on assets and, in the year to 31 March 2014, the expected charge will be £600,000 as compared to the net credit to the Income Statement of £67,000 in the year to 31 March 2013.

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. 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 8 of the Report of the Directors and 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 purchase 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. 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 and bodyshop 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 considers 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 now presented as a non-underlying item. Prior period figures have been restated on a consistent basis, the result of which was to reduce profit before taxation before non-underlying items by £215,000 for the year ended 31 March 2012. While the total tax charge for the Group is unchanged, the comparative taxation figure in respect of underlying and non-underlying items for the previous period has been restated accordingly. IAS 1 Presentation of Financial Statements requires presentation of a comparative balance sheet as at the beginning of the first comparative period, in some circumstances. Management considers that this is not necessary this year because the 2012 balance sheet is the same as that previously published.

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 balance sheet 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 a defined benefit pension plan and a defined contribution plan, for its employees funded jointly by contributions from the Company and employees, the assets of which are held in independent trustee administered funds.

Pension accounting costs for the defined benefit plan is determined using the projected unit credit method after including a credit for the expected return on plan assets. Under the method, in accordance with the advice of qualified actuaries, the amounts charged in respect of employee benefits reflect the cost of benefits accruing in the year and the cost of financing accrued benefits. Actuarial gains and losses are recognised in full in the period in which they occur and presented in the Statement of Comprehensive Income.

The present value of pension obligations is measured by reference to market yields on high quality corporate bonds which have terms to maturity approximating to the terms of the related pension liability. Plan assets are measured at fair value. When the calculation results in a benefit to the Group, the recognised asset is limited to the total value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme. An economic benefit is available to the Group if it is realisable during the life of the scheme, or on settlement of the scheme liabilities. If there is an obligation for the Company to pay deficit funding, this is also recognised.

A defined contribution plan is one under which the Group pays fixed contributions and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the income statement when they are due.

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 balance sheet 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 balance sheet 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 balance sheet 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 balance sheet 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 at the balance sheet date. 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 balance sheet 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 (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 CGUs 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 balance sheet 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 Balance Sheet.

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 2. 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:

	2013 £'000	2012 £'000
Sale of goods	**156,654**	159,600
Rendering of services	**8,311**	10,592
	164,965	170,192

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 £'000	2012 As restated £'000
Impairment of property, plant and equipment	**(178)**	(174)
Net profit on disposal of property, plant and equipment	**1,896**	2,198
Other income (net)	**1,718**	2,024
Within operating expenses:		
Losses incurred on closed businesses	**(1,067)**	(1,315)
Redundancy costs	**(414)**	(32)
	(1,481)	(1,347)
Total other income (net of costs)	**237**	677
Net finance income and service cost on pension scheme	**67**	215
Total non-underlying items before taxation	**304**	892
Income tax expense — tax charge on non-underlying items	**(47)**	(232)
Total after tax	**257**	660

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

Property, plant and equipment have been reviewed for possible impairment in the light of economic conditions. As a result of this review the directors have decided to impair certain branch assets totalling £178,000 (2012: £174,000).

Losses incurred in the closure of businesses amounted to £1,067,000 (2012: £1,315,000). These costs include wind down expenses, recognised from the date of the announcement to close or terminate the dealer agreement with the manufacturer, and also branch specific redundancy costs which amounted to £135,000 (2012: £333,000). Dealerships affected included the closure of Ford at Alton and sale of Volvo/Ford in Hove together with the trading at Ashford, Folkestone and Tunbridge Wells following the termination notice with Vauxhall Motors in July 2011.

2. Non-underlying items (continued)

The Group undertook a programme of redundancies in its core business consequent to the current economic situation, resulting in non-underlying payments of £414,000 (2012: £32,000).

As stated in the accounting policy on page 35, the net financing return and service cost on pension obligations in respect of the defined benefit scheme closed to future accrual is now presented as a non-underlying item. While the profit before tax for the Group is unchanged, the comparative figure in respect of non-underlying items for the previous period has been restated accordingly.

3. Operating profit

Operating profit has been arrived at after charging/(crediting):	**2013 £'000**	2012 £'000
Employee benefit expense (see note 4)	**13,759**	14,967
Impairment of property, plant and equipment	**135**	174
Impairment of asset held for sale	**43**	–
Depreciation of property, plant, equipment and investment property		
– owned assets	**916**	990
Net profit on disposal of property, plant and equipment including assets held for sale	**(1,896)**	(2,198)
Operating lease rentals payable		
– land and buildings	**465**	558
– plant and machinery	**9**	10
Operating lease rentals receivable		
– land and buildings	**81**	199

Operating profit has been arrived at after charging:	**2013 £'000**	2012 £'000
Auditors' remuneration		
– Fees payable to the Company's auditors for the audit of the Company's annual accounts	**64**	63
– Fees payable to the Company's auditors and its associates for other services:		
– Other services pursuant to legislation – Interim review	**10**	10
– Tax services (including compliance and VAT advice)	**19**	20
– Fees in respect of the audit of the Caffyns plc Pension Scheme	**8**	8
– Other services	**2**	5
	103	106

A description of the work of the Audit Committee is set out in the Corporate Governance Report on pages 15 to 20 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:

	2013 Number	2012 Number
Sales	**106**	118
Aftersales	**224**	278
Administration	**95**	100
	425	496

Employee benefit expense during the year including directors amounted to:	2013 £'000	2012 £'000
Wages and salaries	**12,112**	13,351
Social security costs	**1,159**	1,311
Redundancy costs	**414**	351
Contributions to defined contribution plans	**141**	169
Other pension costs (see note 20)	**(67)**	(215)
	13,759	14,967

Directors' emoluments were:	2013 £'000	2012 £'000
Emoluments	**755**	797
Compensation for loss of office	**130**	–
Pension contributions	**3**	14
Pension to widow of former director	**19**	19
	907	830

Details of the directors' remuneration and pension contributions are provided in the Directors' Remuneration Report on pages 21 to 24.

5. Finance expense

	2013 £'000	2012 £'000
Interest payable on bank borrowings	**329**	436
Vehicle stocking plan interest	**370**	413
Financing costs amortised	**116**	142
Preference dividends (see note 9)	**102**	102
Finance expense	**917**	1,093

Interest payable on bank borrowings is after capitalising interest in additions to freehold properties of £13,000 at a rate of 4.4% (2012: £43,000, rate: 4.4%) (see note 11).

6. Finance income on pension scheme

	2013 £'000	2012 £'000
Defined benefit pension scheme net finance income (see note 20)	**87**	237

7. Tax

	2013 £'000	2012 £'000
Current tax		
UK corporation tax	**–**	–
Deferred tax (see note 21)		
Origination and reversal of temporary differences	**(275)**	(227)
Adjustments recognised in the period due to change in rate of corporation tax	**42**	86
Adjustments recognised in the period for deferred tax of prior periods	**–**	101
	(233)	(40)
Total tax charged in the Income Statement	**(233)**	(40)
The tax (charge)/credit arises as follows:		
On normal trading	**(186)**	136
Non-underlying (see note 2)	**(47)**	(176)
	(233)	(40)

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

	2013 £'000	2012 £'000
Profit before tax	**1,522**	1,456
Tax at the UK corporation tax rate of 24% (2012: 26%)	**(365)**	(379)
Tax effect of expenses that are not deductible in determining taxable profit	**(18)**	(30)
Change in rate of corporation tax from 24% to 23% (2012: 26% to 24%)	**42**	86
Accounting depreciation/impairment for which no tax relief is due	**(130)**	(105)
Difference between accounts profits and taxable profits on capital asset disposals	**479**	(204)
Movement in rolled over and held over gains	**(241)**	491
Adjustments to tax charge in respect of prior years	**–**	101
Tax charge for the year	**(233)**	(40)

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

	2013 £'000	2012 £'000
Total current tax charge	**–**	–
Deferred tax charge		
Charged in Income Statement	**(233)**	(40)
Credited against other comprehensive income	**1,804**	287
Total deferred tax credit	**1,571**	247
Total tax credit for the year	**1,571**	247

7. Tax (continued)

Factors affecting the future tax charge

The Company has unrelieved advance corporation tax of approximately £1.14m (2012: £0.75m) 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**	
	2013	2012*	**2013**	2012
	£'000	£'000	**£'000**	£'000
Profit before tax	**1,522**	1,456	**1,522**	1,456
Adjustments:				
Non-underlying items (note 2)	**(304)**	(892)	**–**	–
Adjusted profit before tax	**1,218**	564	**1,522**	1,456
Taxation	**(186)**	192	**(233)**	(40)
Earnings	**1,032**	756	**1,289**	1,416
Earnings per share	**37.3p**	27.2p	**46.6p**	51.0p
Diluted earnings per share	**36.2p**	26.2p	**45.2p**	49.1p

* As restated

The number of fully paid ordinary shares in circulation at the year-end was 2,767,553 (2012: 2,766,779). The weighted average shares in issue for the purposes of the earnings per share calculation were 2,766,973 (2012: 2,779,064). The shares granted under the Company's SAYE scheme are dilutive. The weighted average number of dilutive shares under option at fair value was 85,831 (2012: 104,697) giving a total diluted weighted average number of shares of 2,852,804 (2012: 2,883,761).

9. Dividends

	2013	2012
Paid	**£'000**	£'000
Preference		
6.5% Cumulative First Preference	**25**	25
10% Cumulative Preference	**65**	65
6.0% 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 5.0p (2012: 5.0p)	**138**	140
Final dividend paid in respect of the March 2012 year end of 7.0p (2011: 7.0p)	**194**	195
	332	335

9. Dividends (continued)

Proposed

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2013 of 7.0p per share which will absorb £194,000 of shareholders' funds (2012: 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

	2013	2012
Group and Company	**£'000**	£'000
Cost		
At 1 April 2012 and 31 March 2013	**481**	481
Provision for impairment		
At 1 April 2012 and 31 March 2013	**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 2013/14. 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 or 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 2013.

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 2011	27,113	460	5,156	5,806	38,535
Additions at cost	2,146	44	259	254	2,703
Transfer	–	–	(5)	5	–
Transfer to assets held for sale	(539)	–	–	–	(539)
Disposals	(1,984)	–	(815)	(912)	(3,711)
At 31 March 2012	26,736	504	4,595	5,153	36,988
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**
Accumulated depreciation					
At 1 April 2011	2,186	270	4,026	4,320	10,802
Charge for the year	323	55	343	269	990
Transfer to assets held for sale	(63)	–	–	–	(63)
Transfer to investment property	(4)	–	–	–	(4)
Transfer	–	–	(4)	4	–
Impairment	–	27	72	75	174
Disposals	(187)	–	(743)	(650)	(1,580)
At 31 March 2012	2,255	352	3,694	4,018	10,319
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**
Net book amount					
At 31 March 2013	**28,660**	**571**	**867**	**975**	**31,073**
At 31 March 2012	24,481	152	901	1,135	26,669
At 31 March 2011	24,927	190	1,130	1,486	27,733

11. Property, plant and equipment (continued)

Short-term leasehold property comprised £571,000 at net book value at the balance sheet date (2012: £152,000) in both the Company and the Group. Following the exercise of a break clause in a short term lease as at 17 April 2013, an impairment charge against the cost of leasehold improvements amounting to £94,000 was made in the year.

The impairment charge is in respect of certain assets at a dealership trading from leasehold premises. The Group's approach to impairment testing, which is also relevant to property, plant and equipment, is set out in note 10.

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 £13,000 (2012: £43,000) (see note 5).

Future capital expenditure which has been contracted for but not yet provided in the financial statements was £265,000 (2012: £nil).

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	
	2013	2012
	£'000	£'000
Valuation – March 1995, less depreciation	**4,773**	4,828
At cost, less depreciation	**23,887**	19,653
Deemed cost, less depreciation at the year end	**28,660**	24,481
At historic cost (including property qualifying as non-current asset held for resale)	**29,080**	25,271

The Company valued its portfolio of freehold premises as at 31 March 2012 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 three properties which the Company had offered for sale, the excess of the valuation over net book value as at 31 March 2013 was £4.6m. 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 £15,993,000 (2012: £16,165,000). The balance relates to freehold land, which is not depreciated.

Non-current assets classified as held for sale

The Group holds one freehold property which is classified as held for sale. This property has been sold during the coming financial year and is referred to in the Operational 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 (2012: £3,180,000). A total of £2,353,000 was returned to property, plant and equipment where the conditions required to be an asset held for sale were not met.

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. An impairment charge of £43,000 was charged in the year (see note 5).

12. Investment property

	2013	2012
Group & Company	**£'000**	£'000
Cost		
At 31 March 2012	**608**	608
Accumulated depreciation	**(80)**	(76)
At 31 March 2013	**528**	532

There were no direct costs incurred on this property during the year (2012: £nil). The property is a motor dealership and its fair value is estimated by the directors at £750,000 based on 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 2013 and at 31 March 2012	476
Provision	
At 31 March 2013 and at 31 March 2012	226
Net book amounts	
At 31 March 2013 and at 31 March 2012	**250**

14. Inventories

	2013	2012
	£'000	£'000
Group and Company		
Vehicles	**15,829**	16,164
Vehicles on consignment	**9,016**	8,596
Oil, spare parts and materials	**797**	951
Work in progress	**8**	11
	25,650	25,722
Inventories recognised as an expense during the year	**144,515**	147,550
Inventories stated at fair value less costs to sell	**678**	836
Carrying value of inventories subject to retention of title clauses	**15,795**	15,489

All vehicle stocks held under consignment stocking agreements are deemed to be assets of the Group and are included on the balance sheet 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 £70,000 was recognised in respect of the write down of vehicle parts inventories due to general obsolescence (2012: £88,000).

15. Trade and other receivables

	2013 £'000	2012 £'000
Group and Company		
Trade receivables	**5,098**	5,521
Allowance for doubtful debts	**(34)**	(22)
	5,064	5,499
Other receivables	**1,110**	1,213
	6,174	6,712

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 2013 trade receivables are shown net of an allowance for impairment of £34,000 (2012: £22,000). The write back recognised during the year was £13,000 (2012: charge of £17,000).

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

	2013 £'000	2012 £'000
The ageing of trade receivables at the reporting date was:		
Not past due	**4,795**	5,253
Past due 0-30 days	**223**	197
Past due 31-120 days	**46**	49
	5,064	5,499

	2013 £'000	2012 £'000
The movement in the allowance for impairment during the year was:		
Balance at 1 April	**22**	60
Net impairment recognised	**13**	(17)
Utilisation	**(1)**	(21)
Balance at 31 March	**34**	22

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 balance sheet 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.

15. Trade and other receivables (continued)

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 credit worthiness 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

	2013	2012
Current liabilities	**£'000**	£'000
Secured bank overdrafts	**3,500**	1,219
Non-current liabilities		
Secured bank loans	**7,500**	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 £18.0m (2012: £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	Classification	**2013 Carrying value & fair value £'000**	2012 Carrying value & fair value £'000
Fair value of financial assets and liabilities			
Primary financial instruments held or issued to finance the Group's operations:			
Long term borrowings (note 16)	Financial liability measured at amortised cost	**(7,500)**	(7,500)
Short-term borrowings (note 16)	Financial liability measured at amortised cost	**(3,500)**	(1,219)
Trade and other payables (note 18)	Financial liability measured at amortised cost	**(26,814)**	(25,500)
Trade and other receivables (note 15)	Loans and receivables	**6,174**	6,712
Cash and cash equivalents	Loans and receivables	**1,159**	22
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	**(27,064)**	(25,750)

17. Financial instruments (continued)

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 meet 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.

Due to the continued difficult economic environment, the Group maintained its focus on managing 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.

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 64% at 31 March 2013 (2012: 43%). 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 8.0% (2012 as restated: 2.8%).

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 2013 the Group had undrawn floating rate borrowing facilities of £8.2m (2012: £9.3m) 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 £98,000 (2012: £87,000) before tax relief.

17. Financial instruments (continued)

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 management's belief that it does not expect any manufacturer to fail to meet its obligations. Finance assets comprise cash balances. The counterparties are major banks and management does 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 balance sheet.

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

Cash and cash equivalents

	Carrying value & fair value 2013 £'000	Carrying value & fair value 2012 £'000
Bank balances and cash equivalents	**1,159**	22

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 2013 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				
Bank borrowings	**3,500**	Amortised cost	Floating	Base + 2.75%

	Carrying value £'000	Classification	Interest classification	Interest rate range
Not repayable within one year				
Bank borrowings	**7,500**	Amortised cost	Floating	LIBOR + 2.75%
Preference share capital	**1,237**	Amortised cost	Fixed	6.5% to 10.0%

The maturity of non-current borrowings is as follows:

	2013 £'000	2012 £'000
Between one and two years	**–**	–
Between two and five years	**7,500**	7,500
Over five years	**1,237**	1,237
	8,737	8,737

17. Financial instruments (continued)

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:

	2013	2012
	£'000	£'000
Within 6 months	**122**	156
6-12 months	**122**	156
2-3 years	**7,785**	8,201
Contractual cash flows	**8,029**	8,513

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 April 2013 and the directors consider that the balance of £3.5m will be renewed in August 2013. 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.

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 2013. The Group has granted security by way of a general debenture over its assets and a fixed charge over certain freehold properties. The balance sheet value of those assets at 31 March 2013 was £51.4m (2012: £50.3m). 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

	2013	2012
	£'000	£'000
Trade payables	**10,855**	11,428
Obligations relating to consignment stock	**9,016**	8,596
Manufacturer funding	**3,742**	4,096
Social security and other taxes	**394**	1,001
Preference dividends payable	**–**	51
Accruals	**1,613**	1,284
Other creditors	**38**	45
Group total	**25,658**	26,501
Amounts owed to Group undertakings	**250**	250
Company total	**25,908**	26,751

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 (2012: 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 2012	Exercised	Lapsed	**Number at 31 March 2013**
2010	£3.50	2013	124,373	774	–	**123,599**

The fair value of the 2010 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. The value was calculated as £4.38 on the date of grant. The significant inputs to the valuation were the mid market share price on the day of the grant of £4.38, the exercise price £3.50, the expected life of the options of 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 £24,000 (2012: £24,000), with an associated tax credit to the Income Statement and Equity in 2013 of £5,000 and £1,000 respectively (2012: £5,000 and £1,000).

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 trustees, are held separately from those of the Company. 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.

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 2013 by Towers Watson, qualified independent actuaries, for the requirements of IAS 19. Details are as follows.

20. Retirement benefit scheme (continued)

IAS 19 assumptions

The principal assumptions used by the independent qualified actuaries for the purposes of IAS 19 were:

	2013	2012
	%	%
Rate of increase for pensions in payment:		
Pension accrued before 1 April 2006	**3.20**	3.00
Pension accrued after 1 April 2006	**2.20**	2.10
Discount rate	**4.30**	5.10
Inflation	**3.30**	3.10
Expected return on scheme assets	**5.66**	6.28
Rate of increase for deferred pensioners	**3.30**	3.10

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%	Decrease/increase by £1.0m to £1.5m
Rate of inflation	Increase/decrease by 0.1%	Decrease/increase by £1.0m to £1.5m

The expected long-term rates of return on the main asset classes were:

	Expected return	Fair value of assets	
	2012	**2013**	2012
	%	**£'000**	£'000
Equity instruments	7.4	**39,899**	35,836
Bonds	4.2	**6,922**	6,897
Gilts	3.0	**29,451**	27,710
Property	5.8	**1,979**	2,300
	6.3	**78,251**	72,743

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 2014 is expected to be approximately £600,000 (2013: credit £67,000).

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 2013 and differ from those used for the earlier independent statutory actuarial valuation explained above.

20. Retirement benefit scheme (continued)

Mortality assumptions

Life expectancy at age 65 (in years):

	2013 Male	**2013 Female**	2012 Male	2012 Female
Member currently aged 65	**22.6**	**24.3**	22.6	24.2
Member currently aged 45	**24.0**	**25.8**	24.0	25.7

The fair value of the scheme's assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the value of the scheme's liabilities, which is derived from cash flow projections over long periods and thus inherently uncertain, are:

Scheme assets and liabilities

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Fair value of scheme assets	**78,251**	72,743	69,954	69,038	54,861
Present value of defined benefit obligations	**(91,892)**	(79,003)	(75,435)	(75,396)	(58,576)
Liability recognised in the balance sheet	**(13,641)**	(6,260)	(5,481)	(6,358)	(3,715)

A liability is included in the balance sheet under non-current liabilities. An asset is included in the balance sheet 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 balance sheet

	2013 £'000	2012 £'000
At 1 April	**(6,260)**	(5,481)
Expense recognised in the income statement	**67**	215
Contributions received	**395**	202
Net actuarial losses recognised in other comprehensive income	**(7,843)**	(1,196)
At 31 March	**(13,641)**	(6,260)

Total expense recognised in income statement

	2013 £'000	2012 £'000
Interest cost	**3,925**	4,047
Expected return on scheme assets	**(4,012)**	(4,284)
Interest – net (see note 6)	**(87)**	(237)
Current service cost	**20**	22
	(67)	(215)

20. Retirement benefit scheme (continued)

Cumulative actuarial gains and losses in other comprehensive income

	2013 £'000	2012 £'000
At 1 April	**(5,485)**	(4,289)
Net actuarial losses recognised in the year	**(7,843)**	(1,196)
At 31 March	**(13,328)**	(5,485)

Amounts recognised in the statement of comprehensive income

	2013 £'000	2012 £'000
Difference between actual and expected return on scheme assets	**5,208**	2,047
Changes in assumptions underlying the present value of scheme obligations	**(13,051)**	(3,243)
	(7,843)	(1,196)

Changes in the present value of defined benefit obligation

	2013 £'000	2012 £'000
At 1 April	**79,003**	75,435
Service cost	**20**	22
Interest cost	**3,925**	4,047
Actuarial gains	**13,051**	3,243
Benefits paid	**(4,107)**	(3,744)
At 31 March	**91,892**	79,003

Movement in the fair value of scheme assets

	2013 £'000	2012 £'000
At 1 April	**72,743**	69,954
Expected return on scheme assets	**4,012**	4,284
Actuarial gains	**5,208**	2,047
Contributions from the Company	**395**	202
Benefits paid	**(4,107)**	(3,744)
At 31 March	**78,251**	72,743

The actual return on scheme assets was a gain of £9,220,000 (2012: gain of £6,331,000).

The best estimate of contributions payable by the Group in the year ending 31 March 2014 is £346,000.

20. Retirement benefit scheme (continued)

History of experience adjustments

	2013	2012	2011	2010	2009
	£'000	£'000	£'000	£'000	£'000
Experience adjustments on scheme liabilities					
Amount	**–**	2,643	–	–	(4,107)
Percentage of scheme liabilities	**–**	3.3%	–	–	(7.0%)
Experience adjustments on scheme assets					
Amount	**(5,208)**	(2,047)	(388)	(13,213)	20,033
Percentage of scheme assets	**(6.7%)**	(2.8%)	(0.6%)	(19.1%)	36.6%

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 2011	(1,372)	(1,495)	1,425	206	23	1,138	(75)
Adjustment due to change in rate of corporation tax	108	105	(110)	(16)	(1)	–	86
(Charge)/credit to income	(29)	(100)	(99)	–	1	–	(227)
Prior year adjustments	(25)	135	–	(9)	–	–	101
Recognised in other comprehensive income	–	–	287	–	–	–	287
At 31 March 2012	(1,318)	(1,355)	1,503	181	23	1,138	172
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)	(107)	113	5	–	(275)
Recognised in other comprehensive income	–	–	1,804	–	–	–	1,804
At 31 March 2013	**(1,300)**	**(1,546)**	**3,137**	**286**	**28**	**1,138**	**1,743**

21. Deferred tax (continued)

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:

	2013 £'000	2012 £'000
Deferred tax liabilities	**(2,846)**	(2,673)
Deferred tax assets	**4,589**	2,845
	1,743	172

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 £1.2m (2012: £0.75m) are available for use in future periods.

22. Called up share capital

	2013 £'000	2012 £'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
Allotted, called up and fully paid		
389,000 6.5% Cumulative First Preference Shares of £1 each	**389**	389
648,000 10% Cumulative Preference Share 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 (2012: 2,879,298) Ordinary Shares of 50p each	**1,439**	1,439
	2,676	2,676

There were no purchases of Ordinary Shares for holding as Treasury shares during the year (2012: 24,360 shares costing £104,000). During the year 774 Ordinary Shares were issued from Treasury shares to employees who are entitled to take up their allocation having left the Company's employment and £3,000 was received. At 31 March 2013, 111,745 Ordinary Shares were held as Treasury shares at a cost of £520,000. 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 2013 was £503,000. 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.

22. Called up share capital (continued)

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

	2013	2012
	£'000	£'000
Profit before taxation	**1,522**	1,456
Adjustment for net finance expense	**830**	856
	2,352	2,312
Adjustments for:		
Depreciation of property, plant and equipment	**916**	990
Impairment of property, plant and equipment	**178**	174
Change in retirement benefit obligations	**(375)**	(180)
Gain on disposal of property, plant and equipment	**(1,896)**	(2,198)
Share-based payments	**24**	24
Operating cash flows before movements in working capital	**1,199**	1,122
(Increase)/decrease in inventories	**(26)**	547
Decrease/(increase) in receivables	**546**	(940)
Decrease in payables	**(843)**	(1,678)
Cash generated by operations	**876**	(949)
Income taxes	**–**	(4)
Interest paid	**(917)**	(1,093)
Net cash derived from operating activities	**(41)**	(2,046)

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 audited part of the Directors' Remuneration Report on pages 23 to 24.

	2013	2012
	£'000	£'000
Short-term employee benefits	**755**	797
Post employment benefits	**3**	14
Termination benefits	**130**	–
Pension to widow of former director	**19**	19
Employers' Social Security	**96**	100
	1,003	930

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 41.0% of the voting rights of Caffyns plc. The directors and shareholders of Holdings are also beneficial holders of 641,323 Ordinary Shares in Caffyns plc representing a further 13.2% 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 2.6% of the issued Ordinary Share capital of the Company. Dividends of £9,081 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	
	2013 £'000	2012 £'000
Shares held		
125,570 (2012: 125,570) Ordinary Shares of 50p each	**534**	408
12,862 (2012: 12,862) 10% Cumulative Preference Shares of £1 each	**13**	12
	547	420

c) During the year to 31 March 2013 the Company paid management fees of £275,000 on behalf of the Pension Fund (2012: £323,000). 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

	2013		2012	
	Land and buildings £'000	**Other £'000**	Land and buildings £'000	Other £'000
Within one year	**369**	**9**	502	9
In two to five years	**1,478**	**9**	1,706	17
Beyond five years	**2,081**	**–**	2,666	–
	3,928	**18**	4,874	26

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.

The Group as lessor

Property rental income earned during the year was £81,000 (2012: £199,000). No contingent rents were recognised in income (2012: £nil).

25. Operating leases (continued)

At the balance sheet date, there were contracts with tenants for the following lease payments:

Group and Company

	2013	2012
	£'000	£'000
Within 1 year	**278**	92

26. Capital commitments

The Group and Company had capital commitments at 31 March 2013 of £265,000 (2012: £nil).

27. Contingent liabilities and assets

The Group and Company had no contingent liabilities at 31 March 2013 or 31 March 2012.

VAT

Additional amounts may be received from HM Revenue and 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 judgments and 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 2013 the net liability included in the balance sheet was £13.64m (2012: £6.26m).

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 cash-generating unit 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 £178,000 (2012: £174,000) (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 2013 the net deferred tax asset included in the balance sheet was £1,625,000 (2012: £172,000).

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 2013 the value of vehicles included in the balance sheet was £15.83m (2012: £16.16m).

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

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 £233,000 (2012: £40,000).

Consignment inventories

Consignment vehicles are regarded as effectively under the control of the Group and are included within inventories on the balance sheet 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 2013 the value was £9.0m (2012: £8.6m).

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 entities performance. While the accounting policy adopted is set out on page 35, 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. Revenues determined to fall within this criteria in the year ended 31 March 2013 were £12.9m (2012: £15.8m). Total revenues relating to franchises which met the non-underlying criteria during the year amounted to £14.1m (2012: £24.3m).

VAT

The Group is in discussion with HM Revenue and 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 page 34.

29. Post balance sheet events

A final dividend of 7.0p per share (2012: 7.0p) has been recommended by the directors.

An unconditional contract was exchanged on 16 May 2013 for the sale of a freehold site in Folkestone, held as an asset for sale at 31 March 2013, at a sale price of £495,000. Completion on the sale is due between 5 July 2013 and 15 August 2013 and the consideration is payable in cash.

Five Year Review

	2009 £'000	2010 £'000	2011 £'000	2012* £'000	**2013** **£'000**
Income Statement					
Revenue	158,653	189,426	201,467	170,192	**164,965**
Operating profit/(loss) before non-underlying items	(1,425)	2,152	2,311	1,625	**2,110**
Non-underlying items	(2,132)	118	(1,167)	687	**242**
Finance costs	(1,177)	(1,300)	(1,168)	(1,093)	**(917)**
Finance income	314	–	292	237	**87**
Profit/(loss) before tax	(4,420)	970	268	1,456	**1,522**
Profit/(loss) after taxation	(3,969)	1,107	218	1,416	**1,289**
Basic earnings/(loss) per ordinary share	(137.8p)	38.6p	7.7p	51.0p	**46.6p**
Adjusted earnings/(loss) per ordinary share	(59.8p)	35.7p	41.4p	27.2p	**37.3p**
Dividend per ordinary share payable in respect of the year	4.0p	10.0p	12.0p	12.0p	**12.0p**

* As restated

Balance sheet					
Shareholders' funds	21,304	20,275	20,270	20,370	**15,305**
Bank borrowings (net)	8,908	9,491	8,078	8,719	**9,846**
Debt/shareholders' funds (gearing)	42%	47%	40%	43%	**64%**
Retirement benefit liability	3,715	6,358	5,481	6,260	**13,641**

Our Dealerships . . .

AUDI
Brighton, Sussex. 200 Dyke Road. (01273) 553061
Eastbourne, Sussex, Edward Road. (01323) 525700
Worthing, Sussex. Broadwater Road. (01903) 231111

JAGUAR AND DAIMLER
Lewes, Sussex. Brooks Road.
(01273) 473186

LAND ROVER
Lewes, Sussex. Brooks Road.
(01273) 473186

SKODA
Ashford, Kent. Monument Way. (01233) 504600
Tunbridge Wells, Kent. North Farm Road. (01892) 530430

SEAT
Tunbridge Wells, Kent. Lamberts Road. (01892) 515700

VAUXHALL
Ashford, Kent. Monument Way. (01233) 504604
Tunbridge Wells, Kent. Lamberts Road. (01892) 515700

VOLKSWAGEN
Goring-By-Sea, Sussex. The Crescent, 341 Goring Road. (01903) 504440
Haywards Heath, Sussex. Station Garage, Market Place. (01444) 451511
Eastbourne, Sussex. Hammonds Drive. (01323) 647141
Hove, Sussex. Victoria Road, Portslade. (01273) 425600

VOLVO
Eastbourne, Sussex. 46 Lottbridge Drove. (01323) 418300

PARTS CENTRES
Ashford, Kent. Monument Way. (01233) 504614†
Tunbridge Wells, Kent. Lamberts Road. (01892) 515700

HEAD OFFICE
Eastbourne, Meads Road, Sussex. (01323) 730201

Meads Road, Eastbourne, East Sussex, BN20 7DR

caffyns.co.uk