

Caffyns



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New showroom
Land Rover, Lewes



Results at a Glance

Summary

	2012	2011
	£'000	£'000
Revenue	170,192	201,467
Adjusted EBITDA *	2,546	3,455
Adjusted operating profit **	1,603	2,311
Non-underlying items before tax	677	(1,167)
Adjusted profit before tax **	779	1,435
Profit before tax	1,456	268
Earnings per share	51.0p	7.7p
Adjusted earnings per share **	32.9p	41.4p
Proposed final dividend per share	7.0p	7.0p

* Adjusted EBITDA is adjusted operating profit plus underlying depreciation of £943,000

** Adjusted for non-underlying items

Highlights

- Underlying performance reflects a major restructuring exercise to improve performance and efficiency as well as the continuing impact of the economic downturn on the motor trade.
- Profit before tax (including non-underlying items) of £1.46m (2011: £0.27m).
- Profit before tax (excluding non-underlying items) of £0.78m (2011: £1.44m).
- Basic earnings per share (including non-underlying items) increased to 51.0p (2011: 7.7p).
- 15.5% reduction in revenue reflects the closure of seven underperforming businesses in the prior year.
- Like-for-like new car unit sales down 1.3% (compared to a fall of 7.2% in our market segment).
- £2m redevelopment of new state of the art Land Rover showroom completed on time and budget.
- Two businesses closed and a further three consolidated into adjoining sites to reduce costs and enhance profitability.
- Freehold properties in Brighton and Sevenoaks successfully sold during the year.

Directors and Advisors

Honorary President

ALAN M CAFFYN DL C ENG MI MeChE FIMI

Directors

S BRIAN BIRKENHEAD BSc (Hons) FCMA FID
Chairman

SIMON G M CAFFYN MA FIMI
Chief Executive

MARK S HARRISON FCA FIMI
Finance

GUY J AINSLEY MBA
Operations

SARAH J CAFFYN BSc (Hons) FCIPD AICSA FIMI
Human Resources

RICHARD WRIGHT PG Dip FIMI FCIM
Independent non-executive

ANDREW R GOODBURN FCA
Independent non-executive

NICHOLAS W HOLLINGWORTH BSc
Independent 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
Registered Auditors, Chartered Accountants
Grant Thornton House, Melton Street, Euston Square, London NW1 2EP

Company Secretary

SARAH J CAFFYN BSc (Hons) FCIPD AICSA FIMI

Registered Office

Meads Road, Eastbourne, East Sussex BN20 7DR
Telephone (01323) 730201

Operational and Business Review

Overview

Whilst trading conditions remained very difficult during the period under review, action has been and continues to be taken to improve our internal efficiencies and to position the Company for the next upturn.

During the year, we continued our strategy of improving performance and efficiency across the core businesses. Two underperforming sites were closed and three further dealerships were consolidated into adjoining operations to reduce costs and increase profitability of these sites. Central support service costs were further reduced by over £600,000.

In summary, the major restructuring exercise has produced a stronger core business with higher quality, more concentrated businesses and a strong balance sheet.

Summary of Results

In the year ended 31 March 2012, revenue was £170.2m, down from £201.5m last year, following the closure of seven businesses during the prior year.

Profit before tax rose to £1.46m from £0.27m, while profit before tax and non-underlying items at £0.78m was down from £1.44m in the previous financial year. Basic earnings per share were 51.0p compared with 7.7p in 2011.

Net debt at 31 March 2012 was £8.7m with gearing of 43% (2011: £8.1m, 40%).

New and Used Cars

During the year we saw a relatively strong new car sales performance offset by a decline in used car sales and margin.

After a strong first three months of the 2011 calendar year, the private and small business sector in which we operate experienced a decline in activity from April 2011, the start of the year under review. Total UK new car registrations fell 1.6% in the 12 month period to March 2012 but were down 7.2% in the

private and small business sector. Despite this, our like-for-like new car unit sales remained strong and were down only 1.3% on the prior year. Our premium and premium-volume franchises continue to perform relatively well and new car margins remained firm, with new car gross profits slightly ahead of our internal expectations.

Our used unit sales would have been down 4.5% were it not for the temporary and expected disruption caused by redevelopment at the Land Rover dealership in Lewes and the structural reorganisation in the Vauxhall businesses and the Volvo/Ford business in Brighton. The used car market has been more difficult than new car sales and like-for-like used car unit sales overall were down 10.8% on last year. We have responded by making organisational and other changes including further development of the Company's website which has recently been nominated for a 'Motor Trader' award.

Aftersales

With annual new car registrations again at levels well below pre-recession figures, we have seen a further reduction in the overall size of the 0 to 5 year old car servicing market resulting in a 4.2% decline in like-for-like aftersales revenues. To counter this we have further enhanced our aftersales marketing and retention procedures. Customer retention has been good but the reduction in our used car sales affected levels of reconditioning work put through our workshops.

Developments and Investments

In Lewes we have completed the building of a new state of the art showroom and ancillary facilities for the expanding Land Rover range which gives us greater new car space and a significantly enlarged used car display. This is complemented by our aftersales facility situated nearby which incorporates the latest technology. Being one of the first ever Land Rover franchises, this dealership is now one of the best facilities in the country.

Operational and Business Review

We are in advanced negotiations, subject to planning consent, to buy a 1.85 acre site in Worthing in order to build a new Volkswagen dealership. This acquisition will allow us to relocate to a site with the potential for significant growth in both new and used car sales. Our other Volkswagen businesses are also undergoing refurbishment to meet the new Volkswagen corporate standards and allow us to grow in line with Volkswagen's aspirations for enhanced market share by 2013.

Our Audi and Skoda sites are performing well and we have an opportunity to grow market share substantially with their next generation of cars. In Eastbourne we are increasing the showroom space of our Audi Centre to meet new corporate standards and to provide a better customer experience. As mentioned below, we are moving our Ashford Skoda dealership to an existing site where we can provide improved facilities for this growing franchise.

Restructuring

We announced in July 2011 that we will be ceasing representation of Vauxhall for new car sales in Ashford and Tunbridge Wells when the current agreements terminate. Trading from the Vauxhall sites has been treated as non-underlying in the period from July 2011. Profits and closure costs from the sale of our freehold sites in Sevenoaks and Preston Road, Brighton, are also treated as non-underlying.

In April 2011 we announced the unconditional sale of our premises in Sevenoaks for a cash consideration of £1.75m. The franchise agreements with Peugeot and Citroen expired at the end of May 2011 and the attractive offer we received for the freehold complemented our overall strategy of focusing on premium and premium-volume brands.

In October 2011 we relocated our Skoda business from Tonbridge to our Vauxhall site in Tunbridge Wells and we are planning to add a Seat dealership to this site. In February 2012, we closed our Vauxhall satellite operation in Folkestone and amalgamated it with our main Vauxhall dealership in Ashford.

In December 2011 we transferred our Ashford bodyshop business to a third party, which will allow us to relocate our Skoda business on this site thereby providing improved facilities for this growing franchise.

Our Jaguar used car and aftersales business has been relocated from Eastbourne to our newly refurbished Land Rover site in Lewes.

Revenues of the above sites included as underlying in the year under review were £8.50m.

In addition to these closures and disposals, 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.

Bank Facilities

The Group renewed its facilities with HSBC in March 2012, increasing its three year revolving credit facility from £5.0m to £7.5m. Overall facilities with HSBC remain at £11.0m with the balance of £3.5m available as an overdraft. We have also replaced our former facility of £7.0m at Royal Bank of Scotland with an overdraft facility of £7.0m provided by Volkswagen Bank.

Property

We operate primarily from freehold properties (although we retain a number of leasehold premises) and our property portfolio provides additional strategic flexibility to our business model.

As mentioned previously, we announced the sale of our Sevenoaks site in April 2011, for which we received £1.75m in May 2011.

In May 2011 we announced that we had exchanged contracts for the sale of our freehold property in Alton, Hampshire, for £1.81m, conditional upon a satisfactory planning approval for change of use. If the planning application is successful, completion is scheduled to take place in November 2012. The site trades as a Ford franchise and it is intended that the business will be transferred to alternative premises if the planning application is successful.

On 25 November 2011 the Company submitted a planning appeal against the refusal for change of use of our Preston Road site in Brighton. The appeal was upheld and the agreement with Sainsbury's Supermarkets Limited to lease the site was completed. We sold this property in February 2012 to Shell Trust (UK Property) Limited for £2.7m, representing a net gain on sale of approximately £2.0m.

At the year-end we had four vacant freehold sites for potential sale, in Eastbourne, Hailsham, Goring-by-Sea and Folkestone. As indicated, the first two sites closed in March 2012 and are currently being marketed. Our site in Goring-by-Sea was leased to Tesco Stores Limited and was sold in May 2012 for £1.28m, giving rise to a gain on sale of approximately £0.8m. The other three sites are expected to at least realise book values.

In Tonbridge we have a vacant leasehold site which is currently subject to discussions regarding underletting to a third party at the current passing rent.

The Company valued its portfolio of freehold premises as at 31 March 2012, excluding the four sites which were either for sale or available for letting as at that date. The valuation was carried out by chartered surveyors CBRE Limited on the basis of existing use value. The excess of the valuation over net book value as at 31 March 2012 was £5.0m. In accordance with the Group's accounting policies (which reflect those utilised throughout the industry), this surplus has not been incorporated into the Company's accounts.

Pension Scheme

The pension scheme deficit increased to £6.26m at 31 March 2012 from last year's figure of £5.48m, mainly due to the reduction in the discount rate used to value the liabilities of the scheme. The directors have very little control over the key assumptions required by the accounting standards in the valuation calculations. Although the deficit increased from 31 March 2011, it reduced from the half year figure at 30 September 2011 of £6.9m. The Board continues to review options to reduce the cost of operating the scheme and any actions that could further reduce the deficit.

People

I should like to take this opportunity, on behalf of the Board, to thank our current Chairman, Brian Birkenhead, for helping us to negotiate a period of intense change in a very difficult economic environment. As previously announced, Richard Wright, currently an independent non-executive director, is scheduled to take over as Chairman following the Annual General Meeting on 26 July 2012.

I am particularly pleased that our apprentice programme has been so successful and we were delighted to be awarded the 'Employer of the Year Award' by Northbrook College, who supply training for many of our apprentices.

Despite the challenging conditions we face, our employees have been very positive in their approach during a time of change. This has been a difficult period and I should like to thank them personally for their dedication under trying circumstances.

Dividend

The Board has decided to recommend a final dividend of 7.0p per Ordinary Share (2011: 7.0p). If approved at the Annual General Meeting, this will be paid on 26 July 2012 to shareholders at close of business on 29 June 2012.

Together with the interim dividend of 5.0p per Ordinary Share (2011: 5.0p) paid during the year, the total dividend for the year will be 12.0p per Ordinary Share (2011: 12.0p).

Operational and Business Review

Strategy

Our strategy is to maintain a focus on representing premium and premium-volume franchises. They are more resilient than the wider market and have delivered stronger sales, profits and returns, despite the general economic difficulties.

We continue to invest the proceeds from the sale of properties and closed operations into larger business opportunities in stronger markets. We believe these have the potential to develop higher rates of return on capital.

The closure of loss-making and subscale businesses has freed up capital and management time to concentrate on performance improvements at sites with greater future profit potential.

Our concentration on improving operational processes has helped to offset the decline in used car profitability and aftersales turnover.

Outlook

We have completed a large part of our restructuring and are now in a much stronger position. However, we have not yet seen signs of a sustainable improvement in consumer confidence. With difficult market conditions likely to be with us for some time to come, and continuing uncertainty over future events in Europe, we continue to take steps to improve operating performance. We are strategically well placed with resilient premium franchises to take advantage of any improvement in economic conditions.

S G M Caffyn

Chief Executive

1 June 2012

Report of the Directors

The directors present their report and financial statements for the year ended 31 March 2012.

Results and dividends

The results of the Group for the year are set out in the financial statements on pages 28 to 66. An interim dividend of 5.0 pence per share was paid to shareholders on 13 January 2012. The Board is recommending a final dividend of 7.0p per share (2011: 7.0p) making a total of 12.0p per share (2011: 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.

Principal activities and business review

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 KPI's of the Group are turnover, profit before tax, earnings per share, unit sales, gearing and cash flow from operations.

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.
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.

Report of the Directors

Principal risks	Potential impact/material risk	Key controls and mitigating factors
Vehicle manufacturer dependencies	<p>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.</p>	<p>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.</p>
Liquidity and financing	<p>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.</p>	<p>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.</p>
Regulatory compliance	<p>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.</p>	<p>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.</p>
Information systems	<p>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.</p>	<p>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.</p>

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, bodyshop repairs 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 which 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 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 2012 are set out below:

Mr S B Birkenhead BSc (Hons) FCMA FID joined the Board on 1 January 2004 and was appointed Chairman on 8 August 2008. He will retire at the Annual General Meeting in July. Previously, he has been a non-executive director of a number of public and private companies, was the Group finance director of National Power plc from 1988 to 1996 and from 1995 to 1997 was chairman of the Hundred Group of Finance Directors.

Mr R Wright PG Dip FIMI FCIM 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 1 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.

Mr G J Ainsley MBA joined the Company in September 2009 and the Board on 25 November 2009 as operations director. He has extensive experience in the motor industry, having held senior management positions with Nissan and Inchcape UK, and has an MBA from Henley Management College.

Miss S J Caffyn BSc (Hons) 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.

Interests in shares

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

	As at 31 March 2012		As at 31 March 2011*	
	Ord	10% Pref	Ord	10% Pref
S B Birkenhead	3,000	–	3,000	–
R Wright	–	–	–	–
S G M Caffyn	41,774	1,600	41,774	1,600
M S Harrison	5,000	–	5,000	–
G J Ainsley	–	–	–	–
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	–

* or date of appointment, if later.

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

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

The market price of the Company's Ordinary Shares at 31 March 2012 was £3.625 and the range of market prices during the year was £3.30 and £5.25.

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 of holders of ordinary shares 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 Company. In line with market practice, each director has the benefit of a deed of indemnity. The Company 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, Mr G J Ainsley 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 or Chairman-elect'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, he is entitled to receive from the Company a sum equivalent to one month's salary.

Share capital

As at 31 March 2012, 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 Company issued 2,304 Ordinary Shares from shares being held as treasury shares during the period under review consequent to the Company's SAYE scheme. It purchased 24,360 Ordinary Shares in the market during the period under review, such shares being held as treasury shares in respect of the Company's SAYE share scheme. 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.

Report of the Directors

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
	<u>4,050</u>	<u>100.00</u>
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
	<u>1,237</u>	<u>46.23</u>
Total preference shares recognised as a financial liability		
2,879,298 Ordinary Shares of 50p each	1,439	53.77
	<u>2,676</u>	<u>100.00</u>

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 auditors have 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.

Repurchase of shares

The Company purchased 24,360 of its own Ordinary Shares with an aggregate nominal value of £12,180 (0.9% of the called up Ordinary Share capital) during the year at a cost of £104,000. These shares are being held as treasury shares in respect of the Company's SAYE share scheme. Details of the Company's share capital are given in note 22 to the financial statements.

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 124,373 Ordinary Shares outstanding as at 31 March 2012.

Significant direct or indirect shareholdings

At 1 June 2012, 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
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
EPS Enhancing Earnings Limited	134,000	4.84
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

Report of the Directors

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 trade marks. 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 EC 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 20 March 2012 for overdraft facilities with HSBC Bank plc of £3.5m and 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.

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 £4,196 (2011: £6,441). 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 2012 the Company's outstanding purchase ledger balances represented 22 days' purchases (2011: 25).

Property

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. The excess of the valuation over net book value as at 31 March 2012 was £5.0m. In accordance with the Company's accounting policies, this surplus has not been incorporated into the accounts.

Post balance sheet events

Contracts were exchanged for the sale of the Company's freehold site in Goring, West Sussex for £1.28m on 24 May 2012. This site has been leased to Tesco Stores Limited and includes four residential flats. The consideration is to be paid in cash on 5 July 2012.

Auditors

Grant Thornton UK LLP has indicated its willingness to continue as 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
1 June 2012

Corporate Governance Report

Caffyns plc is committed to maintaining the highest standards of corporate governance. This Report and the Directors' Remuneration Report describes 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 2012 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 the existing contract should not be changed as the Committee considered that it was not in the best interests of the Company.

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 governance 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 Company'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

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.

Corporate Governance Report

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 2012) continues to demonstrate commitment to the role. The non-executive directors, led by the senior independent non-executive 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 2012 the Board comprises four executive directors and four non-executive directors, one of whom is the Chairman. Other than the appointment of Mr R Wright on 1 November 2011, there were no changes to the membership of the Board during the year under review. 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.

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. All non-executive directors, including the Chairman, are determined by the Board to be independent. Mr A R Goodburn is the senior independent non-executive 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. Accordingly, Mr A R Goodburn and Mr M S Harrison offer themselves for re-election at the 2012 Annual General Meeting.

Meetings and attendance

There were nine meetings of the Board in the year under review and all meetings were attended by all directors eligible to attend. Mr R Wright was appointed a director on 1 November 2011 and attended four meetings.

NOMINATION COMMITTEE

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

S B Birkenhead (chairman)
A R Goodburn
N W Hollingworth
R Wright (appointed 1 November 2011)
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 Brian Birkenhead 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 non-executive 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;
- 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 four times during the year. Three meetings were directly concerned with the appointment of a new Chairman-elect and the fourth meeting was the normal annual meeting of the committee.

AUDIT COMMITTEE

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

A R Goodburn (chairman)
S B Birkenhead
N W Hollingworth
R Wright (appointed 1 November 2011)

The Committee is chaired by Mr A R Goodburn and the Company Secretary also attends meetings in her capacity 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 auditors, 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.

Corporate Governance Report

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 auditor's performance; 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 2012, 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.

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 auditor

Non-audit services provided by the Company's auditor are kept under review by the Audit Committee. These will generally be other compliance services in the field of taxation advice. The Audit Committee ensures that the 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.

Effectiveness and independence of external auditor

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

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

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.

Corporate Governance Report

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, oils and paints and their associated equipment. 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 main 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

1 June 2012

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 independent non-executive directors, biographical details of which are set out on page 10:

N W Hollingworth (chairman)
S B Birkenhead
A R Goodburn
R Wright (appointed 1 November 2011)

The Committee met twice during the year and all members were present. Mr R Wright attended one meeting following his appointment.

The Remuneration Committee determines, on behalf of the Board, the Company's policy on executive directors' remuneration and 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 four 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 other than Mr G J Ainsley, who became a director on 25 November 2009, have not increased since 1 April 2008.

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.

c) Long Term Incentive Plan ("LTIP")

Executive directors participate in the LTIP, which was approved by shareholders at the Annual General Meeting in July 2009. Awards to directors are rights to acquire shares in the Company for a nominal payment to the extent that stretching performance conditions are satisfied over a three year period. Performance conditions are set at the time of the award and no variation can be made to such performance conditions which makes them materially easier to satisfy unless the shareholders approve such variation. Shares

Directors' Remuneration Report

acquired under the LTIP must be retained until five years from the date of the grant of the award, subject to the participant being able to sell sufficient shares to fund the income tax and national insurance liabilities arising on the acquisition of the shares. Awards are not pensionable. Further details are set out in note 19 to the financial statements. The Plan lapsed at 31 March 2012 with no awards made.

d) 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, the Company has paid a salary supplement to the Chief Executive 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, Miss S J Caffyn and Mr G J Ainsley have one-year rolling contracts which commenced on 17 April 2000, 28 April 2003 and 2 September 2009 respectively.

Details of non-executive directors are as follows:

Name	Commencement	Expiry	Unexpired term at date of report (months)
S B Birkenhead	8 August 2011	26 July 2012	2
R Wright	1 November 2011	1 November 2014	29
A R Goodburn	1 February 2010	1 February 2013	8
N W Hollingworth	1 February 2011	1 February 2014	20

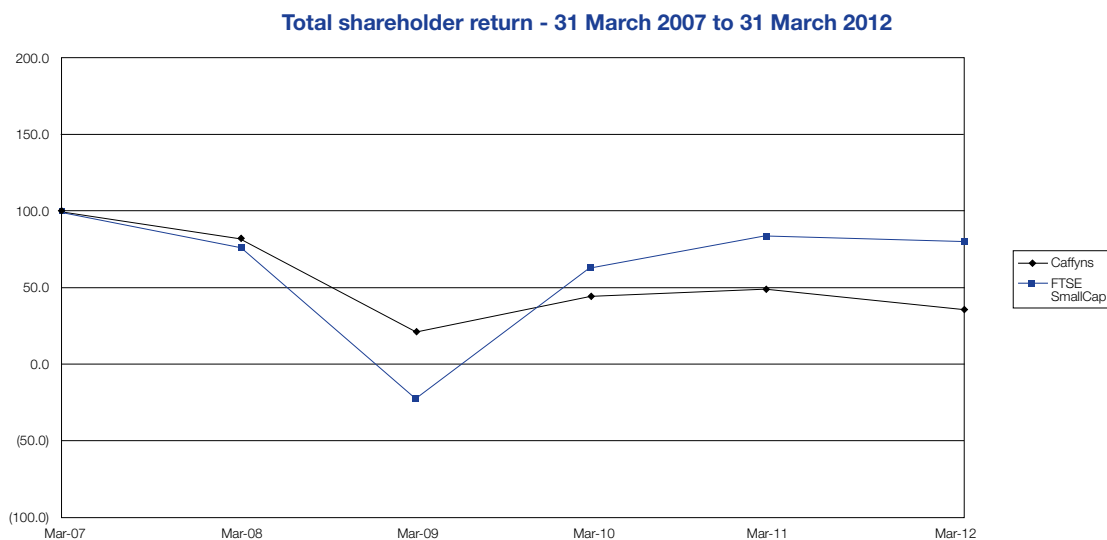
Mr S B Birkenhead is retiring as Chairman of the Company following the forthcoming Annual General Meeting on 26 July 2012 at which time Mr R Wright will become Chairman.

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 Small Cap 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.



AUDITED INFORMATION

Directors' emoluments

	Basic salary and fees £'000	Bonus £'000	Benefits £'000	Sub-total £'000	In lieu of pension contributions £'000	2012 Company pension contributions £'000	2011 Company pension contributions £'000
						2012 Total £'000	2011 Total £'000
Executive directors							
S G M Caffyn	249	–	12	261	7	268	–
M S Harrison	170	9	8	187	–	187	6
G J Ainsley	145	–	8	153	–	153	5
S J Caffyn	81	–	5	86	–	86	3
Non-executive directors							
S B Birkenhead	55	–	–	55	–	55	–
A R Goodburn	20	–	–	20	–	20	–
N W Hollingworth	20	–	–	20	–	20	–
R Wright	8	–	–	8	–	8	–
	748	9	33	790	7	797	14
							818
							16

A discretionary bonus of 5% of basic salary was awarded to M S Harrison.

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 currently receive a fee 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.

Directors' Remuneration Report

Pensions

Three executive directors are members of the Company's defined benefit pension scheme ("the DB Scheme") at the year end (2011: 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 2012 £'000
S G M Caffyn	5	106
M S Harrison	2	31
S J Caffyn	2	31

	Transfer value at 31 March 2012 £'000	Transfer value at 31 March 2011 £'000	Increase/(decrease) in transfer value £'000
S G M Caffyn	1,695	1,764	(69)
M S Harrison	498	487	11
S J Caffyn	244	262	(18)

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 4% per annum 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 2012. 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.

M S Harrison, G J Ainsley and S J Caffyn were members of the Company's defined contribution scheme during the year.

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

Long Term Incentive Plan ("LTIP")

Executive directors participate in a performance incentive share plan designed to deliver a market competitive contribution to total remuneration relative to companies of a comparable size. The LTIP established in 2009 lapsed with effect from 31 March 2012 without any awards being made.

In addition, directors are eligible to participate in the Company's SAYE Scheme open to employees in general.

N W Hollingworth

Chairman of the Remuneration Committee

1 June 2012

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 judgments 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 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.

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 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
Chief Executive
1 June 2012

M S Harrison
Finance Director

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 2012 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 2012 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;
- 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 Corporate Governance Report 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' statement, set out on page 19, in relation to going concern;
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements 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

1 June 2012

Income Statement

for the year ended 31 March 2012

Group and Company

	Note	Before non- underlying £'000	Non- underlying (note 2) £'000	2012 £'000	Before non- underlying £'000	Non- underlying (note 2) £'000	2011 £'000
Revenue	1	154,375	15,817	170,192	199,829	1,638	201,467
Cost of sales		(134,282)	(13,816)	(148,098)	(171,736)	(1,750)	(173,486)
Gross profit		20,093	2,001	22,094	28,093	(112)	27,981
Operating expenses							
Distribution costs		(11,910)	(2,065)	(13,975)	(17,732)	(745)	(18,477)
Administration expenses		(6,580)	(1,251)	(7,831)	(8,050)	(467)	(8,517)
Operating profit before other income		1,603	(1,315)	288	2,311	(1,324)	987
Other income (net)	2	–	2,024	2,024	–	157	157
Operating profit	3	1,603	709	2,312	2,311	(1,167)	1,144
Finance expense	5	(1,061)	(32)	(1,093)	(1,168)	–	(1,168)
Finance income on pension scheme	6	237	–	237	292	–	292
Net finance costs		(824)	(32)	(856)	(876)	–	(876)
Profit before taxation		779	677	1,456	1,435	(1,167)	268
Income tax (expense)/credit	7	136	(176)	(40)	(267)	217	(50)
Profit for the year from continuing operations		915	501	1,416	1,168	(950)	218
Earnings per share continuing operations							
Basic	8			51.0p			7.7p
Diluted	8			49.1p			7.4p

See accompanying notes to the financial statements.

Statement of Comprehensive Income

for the year ended 31 March 2012

Group and Company

	Note	2012 £'000	2011 £'000
Profit for the year		1,416	218
Other comprehensive income:			
Defined benefit plan actuarial (loss)/gain recognised	20	(1,196)	465
Deferred tax on actuarial (loss)/gain	21	287	(121)
Total other comprehensive income, net of taxation		(909)	344
Total comprehensive income for the year		507	562

See accompanying notes to the financial statements.

Balance Sheets

at 31 March 2012

	Note	Group 2012 £'000	Group 2011 £'000	Company 2012 £'000	Company 2011 £'000
Non-current assets					
Property, plant and equipment	11	26,669	27,733	26,669	27,733
Investment property	12	532	536	532	536
Goodwill	10	286	286	286	286
Deferred tax asset	21	172	–	172	–
Investment in subsidiaries	13	–	–	250	250
		27,659	28,555	27,909	28,805
Current assets					
Inventories	14	25,722	26,269	25,722	26,269
Trade and other receivables	15	6,712	6,002	6,712	6,002
Cash and cash equivalents		22	54	22	54
Non-current assets classified as held for sale	11	3,180	2,704	3,180	2,704
		35,636	35,029	35,636	35,029
Total assets		63,295	63,584	63,545	63,834
Current liabilities					
Interest bearing loans and borrowings	16	1,219	3,128	1,219	3,128
Trade and other payables	18	26,501	28,180	26,751	28,430
Current tax payable		208	213	208	213
		27,928	31,521	28,178	31,771
Net current assets		7,708	3,508	7,458	3,258
Non-current liabilities					
Interest bearing loans and borrowings	16	7,500	5,000	7,500	5,000
Preference shares	22	1,237	1,237	1,237	1,237
Deferred tax liabilities	21	–	75	–	75
Retirement benefit obligations	20	6,260	5,481	6,260	5,481
		14,997	11,793	14,997	11,793
Total liabilities		42,925	43,314	43,175	43,564
Net assets		20,370	20,270	20,370	20,270
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	2,419	2,390	2,419
Other reserve	19	96	72	96	72
Retained earnings		15,891	15,786	15,891	15,786
Total equity attributable to shareholders of Caffyns plc		20,370	20,270	20,370	20,270

The financial statements were approved by the Board of directors on 1 June 2012 and were signed on its behalf by:

S B Birkenhead

Directors

M S Harrison

See accompanying notes to the financial statements.

Company number: 105664

Statement of Changes in Equity

for the year ended 31 March 2012

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 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)
Transfer	–	–	–	(29)	–	29	–
Total comprehensive income for the year	–	–	–	(29)	–	536	507
Transactions with owners:							
Dividends	–	–	–	–	–	(335)	(335)
Purchase of own shares	–	–	–	–	–	(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

for the year ended 31 March 2011

	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 2010	1,439	272	282	2,901	72	15,309	20,275
Total comprehensive income							
Profit for the period	–	–	–	–	–	218	218
Other comprehensive income	–	–	–	–	–	344	344
Realised surpluses on disposal of land and buildings	–	–	–	(482)	–	482	–
Total comprehensive income for the year	–	–	–	(482)	–	1,044	562
Transactions with owners:							
Dividends	–	–	–	–	–	(283)	(283)
Purchase of own shares (net)	–	–	–	–	–	(284)	(284)
At 31 March 2011	1,439	272	282	2,419	72	15,786	20,270

Cash Flow Statement

for the year ended 31 March 2012

Group and Company

	Note	2012 £'000	2011 £'000
Net cash (outflow)/inflow from operating activities	23	(2,046)	1,405
Investing activities			
Proceeds on disposal of property, plant and equipment		4,557	1,668
Purchases of property, plant and equipment		(2,703)	(1,099)
Net cash inflow from investing activities		1,854	569
Financing activities			
Secured loans repaid		(3,000)	–
Secured loans received		2,500	–
Purchase of own shares		(104)	(284)
Issue of shares – SAYE scheme		8	–
Dividends paid		(335)	(283)
Repayments of obligations under finance leases		–	(5)
Net cash outflow from financing activities		(931)	(572)
Net (decrease)/increase in cash and cash equivalents		(1,123)	1,402
Cash and cash equivalents at beginning of year		(74)	(1,476)
Cash and cash equivalents at end of year		(1,197)	(74)

	31 March 2012 £'000	31 March 2011 £'000
Cash and cash equivalents	22	54
Overdrafts	(1,219)	(128)
Net cash and cash equivalents	(1,197)	(74)

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. These policies have been consistently applied to the years presented.

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 2012 but are not currently relevant to the Group:

- IAS 24 (Revised) – Related party disclosures
- Amendment to IAS 32 – Classification of rights issues
- IFRIC 14 – Payments of a minimum funding requirement
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

The following standards and interpretations have been published, but are not yet adopted by the EU and have therefore not yet been applied by the Group in these financial statements:

Other standards/interpretations	Content	Applicable on/after
IFRS 9	Financial instruments: Classification and measurement	From 1 January 2015
IFRS 10	Consolidated Financial Statements	1 January 2013
IAS 19 (Revised June 2011)	Employee Benefits	1 January 2013
IAS 27 (Revised)	Separate financial statements	1 January 2013
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets	1 January 2012
Amendment to IFRS 7	Disclosures – Transfers of Financial Assets	1 July 2011

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

Principal Accounting Policies

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.

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 Company and the assets are stated at historical cost less depreciation. Provision for depreciation of all tangible fixed assets of the Company 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.

Principal Accounting Policies

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 equity settled share-based compensation plans for remuneration of directors in the form of a Long Term Incentive Plan and also incentivisation 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant 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.

Principal Accounting Policies

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 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 cash-generating unit "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 cash-generating units 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 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. Parts inventories are based upon an average 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 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.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and 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 payables

Trade payables are not interest bearing and are stated at their fair value on initial recognition.

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 Long Term Incentive Plan and 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.

Notes to the Financial Statements

for the year ended 31 March 2012

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:

	2012	2011
	£'000	£'000
Sale of goods	159,600	187,113
Rendering of services	10,592	14,354
	<u>170,192</u>	<u>201,467</u>

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

	2012	2011
	£'000	£'000
Impairment of property, plant and equipment	(174)	–
Net profit on disposal of property, plant and equipment	2,198	157
Other income (net)	2,024	157
Within operating expenses:		
Losses incurred on closed businesses	(1,315)	(1,172)
Redundancy costs	(32)	(152)
	<u>(1,347)</u>	<u>(1,324)</u>
Total non-underlying items before taxation	677	(1,167)
Income tax expense – Tax (charge)/credit on non-underlying items	(176)	217
Total after tax	<u>501</u>	<u>(950)</u>

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 £174,000 (2011: £nil).

Losses incurred in the closure of businesses amounted to £1,315,000 (2011: £1,172,000). 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 £333,000 (2011: 699,000). Dealerships affected included the closure of Peugeot at Sevenoaks and Jaguar in Eastbourne together with the trading at Ashford, Folkestone and Tunbridge Wells following the termination notice with Vauxhall Motors in July 2011.

The Group undertook a programme of redundancies in its core business consequent to the current economic situation, resulting in non-underlying payments of £32,000 (2011: £152,000).

3. Operating profit

Operating profit has been arrived at after charging/(crediting):

	2012	2011
	£'000	£'000
Employee benefit expense (see note 4)	14,967	19,334
Impairment of property, plant and equipment	(174)	–
Depreciation of property, plant and equipment		
– owned assets	990	1,139
– under finance leases	–	5
Net profit on disposal of property, plant and equipment	(2,198)	(157)
Operating lease rentals payable		
– land and buildings	558	542
– plant and machinery	10	21
Operating lease rentals receivable		
– land and buildings	199	33
	<hr/>	<hr/>
Operating profit has been arrived at after charging:		
	2012	2011
	£'000	£'000
Auditor's remuneration		
– Fees payable to the Company's auditor for the audit of the Company's annual accounts	63	61
– Fees payable to the Company's auditor and its associates for other services:		
– Other services pursuant to legislation – Interim review	10	9
– Tax services (including compliance and VAT advice)	20	12
– Fees in respect of the audit of the Caffyns plc Pension Scheme	8	8
– Other services	5	4
	<hr/>	<hr/>
	106	94
	<hr/>	<hr/>

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.

Notes to the Financial Statements

for the year ended 31 March 2012

4. Employee benefit expense

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

	2012	2011
	Number	Number
Sales	118	148
Aftersales	278	378
Administration	100	129
	496	655

	2012	2011
	£'000	£'000
Employee benefit expense during the year including directors amounted to:		
Wages and salaries	13,351	16,836
Social security costs	1,311	1,703
Redundancy costs	351	851
Contributions to defined contribution plans	169	208
Other pension costs (see note 20)	(215)	(264)
	14,967	19,334

	2012	2011
	£'000	£'000
Directors' emoluments were:		
Emoluments	797	818
Pension contributions	14	16
Pension to widow of former director	19	19
	830	853

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

5. Finance expense

	2012	2011
	£'000	£'000
Interest payable on bank borrowings	436	469
Vehicle stocking plan interest	413	407
Financing costs amortised	142	190
Preference dividends (see note 9)	102	102
	1,093	1,168

Interest payable on bank borrowings is after capitalising interest in additions to freehold properties of £43,000 in respect of the construction of the new showroom and ancillary facilities at the Land Rover dealership in Lewes (see note 11).

6. Finance income on pension scheme

	2012	2011
	£'000	£'000
Defined benefit pension scheme net finance income (see note 20)	237	292

7. Tax

	2012	2011
	£'000	£'000
Current tax		
UK corporation tax	–	–
Deferred tax (see note 21)		
Origination and reversal of temporary differences	(227)	(67)
Adjustments recognised in the period due to change in rate of corporation tax	86	79
Adjustments recognised in the period for deferred tax of prior periods	101	(62)
	(40)	(50)
Total tax charged in the Income Statement	(40)	(50)
The tax (charge)/credit arises as follows:		
On normal trading	136	(267)
Non-underlying (see note 2)	(176)	217
	(40)	(50)

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

	2012	2011
	£'000	£'000
Profit before tax	1,456	268
Tax at the UK corporation tax rate of 26% (2011: 21%)	(379)	(56)
Tax effect of expenses that are not deductible in determining taxable profit	(30)	(27)
Change in rate of corporation tax from 26% to 24% (2011: 28% to 26%)	86	79
Accounting depreciation for which no tax relief is due	(105)	(69)
Difference between accounts profits and taxable profits on capital asset disposals	(204)	33
Movement in rolled over and held over gains	491	52
Adjustments to tax charge in respect of prior years	101	(62)
Tax charge for the year	(40)	(50)

Notes to the Financial Statements

for the year ended 31 March 2012

7. Tax (continued)

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

	2012 £'000	2011 £'000
Total current tax charge	–	–
Deferred tax charge		
Charged in Income Statement	(40)	(50)
Credited/(charged) against other comprehensive income	287	(121)
Total deferred tax credit/(charge)	247	(171)
Total tax credit/(charge) for the year	247	(171)

Factors affecting the future tax charge

The Company has unrelieved advance corporation tax of approximately £0.75m (2011: £0.8m) 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	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000
Profit before tax	1,456	268	1,456	268
Adjustments:				
Non-underlying items (note 2)	(677)	1,167	–	–
Adjusted profit before tax	779	1,435	1,456	268
Taxation	136	(267)	(40)	(50)
Earnings	915	1,168	1,416	218
Basic earnings per share	32.9p	41.4p	51.0p	7.7p
Diluted earnings per share	31.7p	39.9p	49.1p	7.4p

The number of fully paid ordinary shares in circulation at the year end was 2,766,779 (2011: 2,788,835). The weighted average shares in issue for the purposes of the earnings per share calculation were 2,779,064 (2011: 2,822,686). The shares granted under the Company's SAYE scheme are dilutive. The weighted average number of dilutive shares under option at fair value was 104,697 (2011: 107,532) giving a total diluted weighted average number of shares of 2,883,761 (2011: 2,930,218).

9. Dividends

Paid	2012 £'000	2011 £'000
Preference		
6.5% Cumulative First Preference	25	25
10% Cumulative Preference	65	65
6.0% Cumulative Second Preference	12	12
	<hr/>	<hr/>
Included in finance expense (see note 5)	102	102
	<hr/>	<hr/>
Ordinary		
Interim dividend paid in respect of the current year of 5.0p (2011: 5.0p)	140	141
Final dividend paid in respect of the March 2011 year end of 7.0p (2010: 5.0p)	195	142
	<hr/>	<hr/>
	335	283
	<hr/>	<hr/>

Proposed

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2012 of 7.0p per share which will absorb £194,000 of shareholders' funds (2011: 7.0p per share absorbing £195,000). The proposed final dividend is subject to approval by shareholders at the forthcoming Annual General Meeting and has not been included as a liability in these financial statements.

10. Goodwill

Group and Company	2012 £'000	2011 £'000
Cost		
At 1 April 2011 and 31 March 2012	481	481
Provision for impairment	<hr/>	<hr/>
At 1 April 2011 and 31 March 2012	195	195
Carrying amounts:	<hr/>	<hr/>
Volkswagen, Brighton	200	200
Audi, Eastbourne	86	86
	<hr/>	<hr/>
At 31 March	286	286
	<hr/>	<hr/>

For the purposes of impairment testing of goodwill, the directors recognise the Group's cash-generating units ("CGU") to be the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other groups of assets. 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 2012/13. These projections take into account management estimates of future trading including past experience and industry expectations. They are extrapolated over an additional four years, 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.

In the case of the CGU's to which the goodwill relates, the realisable value of those CGU's were 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 2012.

Notes to the Financial Statements

for the year ended 31 March 2012

11. Property, plant and equipment

	Freehold property £'000	Leasehold property £'000	Fixtures & fittings £'000	Plant & machinery £'000	Total £'000
Group and Company					
<i>Cost or deemed cost</i>					
At 1 April 2010	30,753	329	5,678	6,365	43,125
Additions at cost	227	160	368	344	1,099
Transfer	26	–	(28)	2	–
Transfer to assets held for sale	(2,964)	–	–	–	(2,964)
Transfer to investment property	(608)	–	–	–	(608)
Disposals	(321)	(29)	(862)	(905)	(2,117)
At 31 March 2011	27,113	460	5,156	5,806	38,535
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
<i>Depreciation</i>					
At 1 April 2010	2,201	234	4,335	4,672	11,442
Charge for the year	328	36	441	339	1,144
Transfer	19	–	(19)	–	–
Transfer to assets held for sale	(260)	–	–	–	(260)
Transfer to investment property	(72)	–	–	–	(72)
Disposals	(30)	–	(731)	(691)	(1,452)
At 31 March 2011	2,186	270	4,026	4,320	10,802
<i>Depreciation</i>					
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
<i>Net book amount</i>					
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
At 31 March 2010	28,552	95	1,343	1,693	31,683

11. Property, plant and equipment (continued)

Short-term leasehold property comprised £152,000 at net book value at the balance sheet date (2011: £190,000) in both the Company and the Group.

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

Additions to freehold property includes interest capitalised of £43,000 (2011: £nil) (see note 5).

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.

There was no future capital expenditure which has been contracted for but not yet provided in the financial statements (2011: £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	
	2012	2011
	£'000	£'000
Valuation – March 1995, less depreciation	4,828	6,838
At cost, less depreciation	19,653	18,089
	<hr/>	<hr/>
Deemed cost, less depreciation at the year end	24,481	24,927
	<hr/>	<hr/>
At historic cost (including property qualifying as non-current asset held for resale)	25,271	25,212
	<hr/>	<hr/>

The freehold properties (excluding sites which are classed as assets held for sale) were revalued at 31 March 2012 at fair value (open market for existing use) by CBRE Limited, Chartered Surveyors. The excess of the valuation over the net book value of the properties subject to the valuation as at 31 March 2012 was £5.0m. In accordance with the Company's accounting policies, this surplus is not incorporated in these accounts.

Depreciation is being charged on the value of freehold buildings of £16,165,000 (2011: £16,400,000). The balance relates to freehold land, which is not depreciated.

Non-current assets classified as held for sale

The Group holds four freehold properties which are classified as held for sale. They are expected to be sold during the coming financial year and are referred to in the Operational and Business Review on page 5.

Property, plant and equipment held for sale at 31 March 2012 with a net book value of £3,180,000 fulfilled the conditions to be reclassified as non-current assets held for sale (2011: £2,704,000).

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. No gain or loss arose on reclassifying the properties held for sale.

Notes to the Financial Statements

for the year ended 31 March 2012

12. Investment property

Group and Company	£'000
<i>Cost</i>	
At 31 March 2011	536
Depreciation provided in the year	(4)
At 31 March 2012	532

There were no direct costs incurred on this property during the year (2011: £nil). The property is a motor dealership and its fair value is estimated by the directors at £750,000.

13. Investments in subsidiaries

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
<i>Cost</i>	
At 31 March 2012 and at 31 March 2011	476
<i>Provision</i>	
At 31 March 2012 and at 31 March 2011	226
<i>Net book amounts</i>	
At 31 March 2012 and at 31 March 2011	250

14. Inventories

Group and Company	2012 £'000	2011 £'000
Vehicles	16,164	16,692
Vehicles on consignment	8,596	8,520
Oil, spare parts and materials	951	1,052
Work in progress	11	5
	25,722	26,269
Inventories recognised as an expense during the year	147,550	171,820
Inventories stated at fair value less costs to sell	836	949
Carrying value of inventories subject to retention of title clauses	15,489	15,258

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 £88,000 was recognised in respect of the write down of vehicle parts inventories due to general obsolescence (2011: £156,000).

15. Trade and other receivables

Group and Company	2012 £'000	2011 £'000
Trade receivables	5,521	5,072
Allowance for doubtful debts	(22)	(60)
	<hr/>	<hr/>
	5,499	5,012
Other receivables	1,213	990
	<hr/>	<hr/>
	6,712	6,002
	<hr/>	<hr/>

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 2012 trade receivables are shown net of an allowance for impairment of £22,000 (2011: £60,000). The write back recognised during the year was £17,000 (2011: charge of £38,000).

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

	2012 £'000	2011 £'000
The ageing of trade receivables at the reporting date was:		
Not past due	5,253	4,684
Past due 0–30 days	197	249
Past due 31–120 days	49	79
	<hr/>	<hr/>
	5,499	5,012
	<hr/>	<hr/>

	2012 £'000	2011 £'000
The movement in the allowance for impairment during the year was:		
Balance at 1 April	60	44
Net impairment recognised	(17)	38
Utilisation	(21)	(22)
	<hr/>	<hr/>
Balance at 31 March	22	60
	<hr/>	<hr/>

All amounts are due within one year.

Notes to the Financial Statements

for the year ended 31 March 2012

15. Trade and other receivables (continued)

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.

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

	2012	2011
	£'000	£'000
Current liabilities		
Secured bank overdrafts	1,219	128
Secured bank loans	–	3,000
	1,219	3,128
Non-current liabilities		
Secured bank loans	7,500	5,000

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 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	2012 Carrying value & fair value £'000	2011 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)	(5,000)
Short-term borrowings (note 16)	Financial liability measured at amortised cost	(1,219)	(3,128)
Trade and other payables (note 18)	Financial liability measured at amortised cost	(25,500)	(26,992)
Trade receivables (note 15)	Loans and receivables	5,499	5,012
Cash at bank and in hand	Loans and receivables	22	54
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	(25,750)	(27,242)

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 debt/equity ratio was 43% at 31 March 2012 (2011: 40%). 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. The underlying pre-tax return on equity for the year was 3.8% (2011: 7.1%).

Notes to the Financial Statements

for the year ended 31 March 2012

17. Financial instruments (continued)

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 2012 the Group had undrawn floating rate borrowing facilities of £9.3m (2011: £9.9m) 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 £87,000 (2011: £81,000) before tax relief.

Credit risk management

The Group's receivables are all denominated in sterling. The Group is exposed to credit risk primarily in respect of its trade receivables and financial assets. Trade receivables are stated net of provision for estimated impairment losses. Exposure to credit risk in respect of trade receivables is mitigated by the Group's policy of only granting credit to certain customers after an appropriate evaluation of credit risk. Credit risk arises in respect of amounts due from manufacturers in relation to bonuses and warranty receivables. This risk is mitigated by the range of manufacturers dealt with, the Group's procedures in effecting timely collection of amounts due and 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 2012 £'000	Carrying value & fair value 2011 £'000
Bank balances and cash equivalents	22	54

17. Financial instruments (continued)

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 2012 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	1,219	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:

	2012 £'000	2011 £'000
Between 1 and 2 years	–	5,000
Between 2 and 5 years	7,500	–
Over 5 years	1,237	1,237
	8,737	6,237

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:

	2012 £'000	2011 £'000
Within 6 months	156	155
6–12 months	156	3,130
2–3 years	7,552	5,033
Contractual cash flows	7,864	8,318

Notes to the Financial Statements

for the year ended 31 March 2012

17. Financial instruments (continued)

The Group has a revolving credit facility of £7.5m expiring in May 2015. It also has £10.5m of overdraft facilities. 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 2012. 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 2012 was £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

	2012	2011
	£'000	£'000
Trade payables	11,428	12,911
Obligations relating to consignment stock	8,596	8,520
Manufacturer funding	4,096	4,225
Social security and other taxes	1,001	1,188
Preference dividends payable	51	51
Accruals	1,284	1,280
Other creditors	45	5
	<hr/>	<hr/>
Group total	26,501	28,180
Amounts owed to Group undertakings	250	250
	<hr/>	<hr/>
Company total	26,751	28,430
	<hr/>	<hr/>

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 (2011: 25 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

(i) Directors' Long Term Incentive Plan

The Long Term Incentive Plan established in 2009 required certain performance conditions. These conditions have not been met and, consequently, the Scheme has lapsed.

(ii) SAYE scheme

Year of grant	Exercise price	Exercise date	Number at 31 March 2011	Exercised	Lapsed	Number at 31 March 2012
31 March 2010	£3.50	2013	126,677	2,304	–	124,373

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 £23,000 (2011: £65,000), with an associated tax credit to the Income Statement and Equity in 2012 of £5,000 and £1,000 respectively (2011: £18,000 and £7,000).

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 2008.

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 2008 showed that the market value of the CPS assets was £72.9m and that the actuarial value of those assets represented 91% of the value of the benefits that had accrued to employees at that date. The deficit arising of £7.3m compared to a surplus under IAS 19 at 31 March 2008 is due to different assumptions being adopted for the triennial valuation. The valuation as at 31 March 2011 is expected to be finalised in June 2012.

Notes to the Financial Statements

for the year ended 31 March 2012

20. Retirement benefit scheme (continued)

Costs and liabilities of the scheme are based on actuarial valuations. The latest full actuarial valuations carried out at 31 March 2008 were updated to 31 March 2012 by Towers Watson, qualified independent actuaries, for the requirements of IAS 19. Details are set out below:

IAS 19 assumptions

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

	2012 %	2011 %
Rate of increase for pensions in payment:		
Pension accrued before 1 April 2006	3.0	3.3
Pension accrued after 1 April 2006	2.1	2.4
Discount rate	5.1	5.5
Inflation	3.1	3.4
Expected return on scheme assets	6.3	6.6
Rate of increase for deferred pensioners	3.1	3.4

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 %	2011 %	2012 £'000	2011 £'000
Equity instruments	7.4	8.4	35,836	36,499
Bonds	4.2	5.1	6,897	6,160
Gilts	3.0	4.4	27,710	25,118
Property	5.8	5.1	2,300	2,177
	6.3	6.6	72,743	69,954

The overall expected return on assets reflects the directors' long-term view of future returns taking into account market conditions at the year end and asset allocation of the scheme.

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 2012 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):

	2012	2012	2011	2011
	Male	Female	Male	Female
Member currently aged 65	22.6	24.2	22.2	25.0
Member currently aged 45	24.0	25.7	23.2	26.0

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

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Fair value of scheme assets	72,743	69,954	69,038	54,861	72,507
Present value of defined benefit obligations	(79,003)	(75,435)	(75,396)	(58,576)	(70,643)
(Liability)/asset recognised in the balance sheet	(6,260)	(5,481)	(6,358)	(3,715)	1,864

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

	2012	2011
	£'000	£'000
At 1 April	(5,481)	(6,358)
Expense recognised in the income statement	215	264
Contributions received	202	148
Net actuarial (losses)/gains recognised in other comprehensive income	(1,196)	465
At 31 March	(6,260)	(5,481)

Total expense recognised in income statement

	2012	2011
	£'000	£'000
Interest cost	4,047	4,110
Expected return on scheme assets	(4,284)	(4,402)
Interest – net (see note 6)	(237)	(292)
Current service cost	22	28
	(215)	(264)

Notes to the Financial Statements

for the year ended 31 March 2012

20. Retirement benefit scheme (continued)

The expense is recognised in the following line items in the income statement:

	2012 £'000	2011 £'000
Net finance expense/(income):		
Finance costs	4,047	4,110
Finance income	(4,284)	(4,402)
	(237)	(292)
Administrative expenses	22	28
Total included within staff costs (note 4)	(215)	(264)

Cumulative actuarial gains and losses in other comprehensive income

	2012 £'000	2011 £'000
At 1 April	(4,289)	(4,754)
Net actuarial (losses)/gains recognised in the year	(1,196)	465
At 31 March	(5,485)	(4,289)

Amounts recognised in the statement of comprehensive income

	2012 £'000	2011 £'000
Difference between actual and expected return on scheme assets	2,047	388
Changes in assumptions underlying the present value of scheme obligations	(3,243)	77
	(1,196)	465

Changes in the present value of defined benefit obligation

	2012 £'000	2011 £'000
At 1 April	75,435	75,396
Service cost	22	28
Interest cost	4,047	4,110
Actuarial gains and losses	3,243	(77)
Benefits paid	(3,744)	(4,022)
At 31 March	79,003	75,435

20. Retirement benefit scheme (continued)

Movement in the fair value of scheme assets

	2012	2011
	£'000	£'000
At 1 April	69,954	69,038
Expected return on scheme assets	4,284	4,402
Actuarial gains and losses	2,047	388
Contributions from the Company	202	148
Benefits paid	(3,744)	(4,022)
	<hr/>	<hr/>
At 31 March	72,743	69,954
	<hr/>	<hr/>

The actual return on scheme assets was a gain of £6,331,000 (2011: gain of £4,790,000).

The best estimate of contributions payable by the Group in the year ending 31 March 2013 is £203,000.

History of experience adjustments

	2012	2011	2010	2009	2008
	£'000	£'000	£'000	£'000	£'000
Experience adjustments on scheme liabilities					
Amount	2,643	–	–	(4,107)	–
Percentage of scheme liabilities	3.3%	–	–	(7.0%)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Experience adjustments on scheme assets					
Amount	(2,047)	(388)	(13,213)	20,033	8,299
Percentage of scheme assets	(2.8%)	(0.6%)	(19.1%)	36.6%	11.5%
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Financial Statements

for the year ended 31 March 2012

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 2010	(1,448)	(1,609)	1,780	210	25	1,138	96
Adjustments due to change in rate of corporation tax	108	115	(127)	(15)	(2)	–	79
(Charge)/credit to income	34	(5)	(107)	11	–	–	(67)
Prior year adjustments	(66)	4	–	–	–	–	(62)
Recognised in other comprehensive income	–	–	(121)	–	–	–	(121)
At 31 March 2011	(1,372)	(1,495)	1,425	206	23	1,138	(75)
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

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:

	2012 £'000	2011 £'000
Deferred tax liabilities	(2,673)	(2,867)
Deferred tax assets	2,845	2,792
	172	(75)

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

Taxable trading losses amounting to £0.75m (2011: £0.8m) are available for use in future periods.

22. Called up share capital

	2012 £'000	2011 £'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
	<u>4,050</u>	<u>4,050</u>
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)	<u>1,237</u>	<u>1,237</u>
2,879,298 (2011: 2,879,298) Ordinary Shares of 50p each	1,439	1,439
	<u>2,676</u>	<u>2,676</u>

The cost of purchasing 24,360 Ordinary Shares (2011: 60,881) for holding as Treasury shares was £104,000 (2011: £284,000) and has been charged against retained earnings. During the year, 2,304 Ordinary Shares were issued from Treasury shares to employees who are entitled to take up their allocation having left the Company's employment and £8,000 received. At 31 March 2012, 112,519 Ordinary Shares were held as Treasury shares at a cost of £524,000. 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 2012 was £408,000. 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 full voting rights along with the Ordinary Shares.

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.

Notes to the Financial Statements

for the year ended 31 March 2012

23. Notes to the cash flow statement

	2012 £'000	2011 £'000
Profit before taxation	1,456	268
Adjustment for net finance expense	856	876
	<u>2,312</u>	<u>1,144</u>
Adjustments for:		
Depreciation of property, plant and equipment	990	1,144
Impairment of property, plant and equipment	174	–
Change in retirement benefit obligations	(180)	(120)
Gain on disposal of property, plant and equipment	(2,198)	(157)
Share-based payments	24	–
	<u>1,122</u>	<u>2,011</u>
Operating cash flows before movements in working capital	1,122	2,011
Decrease/(increase) in inventories	547	(4,237)
(Increase)/decrease in receivables	(940)	1,773
(Decrease)/increase in payables	(1,678)	3,033
	<u>(949)</u>	<u>2,580</u>
Cash generated by operations	(949)	2,580
Income taxes	(4)	(7)
Interest paid	(1,093)	(1,168)
	<u>(2,046)</u>	<u>1,405</u>
Net cash derived from operating activities	(2,046)	1,405

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.

	2012 £'000	2011 £'000
Short-term employee benefits	797	818
Post employment benefits	14	16
Pension to widow of former director	19	19
Employers' Social Security	100	88
	<u>930</u>	<u>941</u>

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.

24. Related parties (continued)

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	
	2012 £'000	2011 £'000
Shares held		
125,570 (2011: 125,570) Ordinary Shares of 50p each	408	565
12,862 (2011: 12,862) 10% Cumulative Preference Shares of £1 each	12	12
	<u>420</u>	<u>577</u>

- c) During the year to 31 March 2012 the Company paid management fees of £323,000 on behalf of the Pension Fund (2011: £305,000). These costs include 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 2012		Group and Company 2011	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within 1 year	502	9	508	17
In 2 to 5 years	1,706	17	1,782	34
Beyond 5 years	2,666	–	3,092	–
	<u>4,874</u>	<u>26</u>	<u>5,382</u>	<u>51</u>

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 and the rental of motor vehicles used in the Company's bodyshop activities.

Notes to the Financial Statements

for the year ended 31 March 2012

25. Operating leases (continued)

The Group as lessor

Property rental income earned during the year was £199,000 (2011: £33,000). No contingent rents were recognised in income (2011: £nil).

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

Group and Company	2012 £'000	2011 £'000
Within 1 year	92	44

26. Capital commitments

The Group and Company had capital commitments at 31 March 2012 of £nil (2011: £nil).

27. Contingent liabilities and assets

The Group and Company had no contingent liabilities at 31 March 2012 or 31 March 2011.

VAT

The claim that had been lodged with HM Revenue and Customs in connection with the repayments of VAT received in September 2004 and March 2007 was joined in a Group Litigation Order ("GLO") along with other claimants. Interest on these repayments was on a simple interest basis whereas the GLO claimed that it should have been on a compound interest basis. As previously reported, while the High Court found in the claimant's favour, it also held that the limitation period for bringing these particular claims ran out in around 2002/03. Claims were not made because, at that time, dealerships were unaware of their entitlement to claim. The view of the court on appeal was to uphold the original decision. Following a decision in the Court of Appeal, it was decided that the outcome will await the decision in another related case expected by early 2013.

In the event that a claim is successful, any further amount payable to the Company would depend upon the rate of interest decided by the courts. In view of the current state of the legal process, no amount in respect of this claim has been included in these financial statements. If successful, the claim is likely to have a material affect on the Company's financial statements.

Two other claims have been lodged with HM Revenue and Customs. The first claim relates to demonstrator bonuses paid to our former contract leasing business between 1983 and 1996 and is for £152,000. The second claim relates to the treatment of certain part-exchange vehicles acquired between 1973 and 1992 and is for £1.07m. The directors are not able to determine whether or not these claims are likely to prove successful and have therefore not included such claims in these financial statements.

28. Critical accounting judgements 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 2012 the net liability included in the balance sheet was £6.26m (2011: £5.48m).

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 £174,000 (2011: £nil) (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 2012 the net deferred tax asset included in the balance sheet was £172,000 (2011: £75,000 liability).

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 2012 the value of vehicles included in the balance sheet was £16.16m (2011: £16.69m).

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 £40,000 (2011: £50,000).

Consignment inventories

Consignment vehicles are regarded as effectively under the control of the Group and are included within inventories on the balance sheet as the Group has 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 2012 the value was £8.60m (2011: £8.52m).

Notes to the Financial Statements

for the year ended 31 March 2012

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

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 2012 were £15.8m (2011: £1.6m). Total revenues relating to franchises which met the non-underlying criteria during the year amounted to £24.3m (2011: £18.3m).

VAT

The Group is in discussion with HM Revenue and Customs over issues which may arise in 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 issues.

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 33.

29. Post balance sheet events

A final dividend of 7.0p per share (2011: 7.0p) has been recommended by the directors.

Contracts were exchanged for the sale of the Company's freehold site in Goring, West Sussex for £1.28m on 24 May 2012. This site has been leased to Tesco Stores Limited and includes four residential flats. The consideration is to be paid in cash on 5 July 2012.

Five Year Review

	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000
Income Statement					
Revenue	182,029	158,653	189,426	201,467	170,192
Operating profit/(loss) before exceptional/ non-underlying items	393	(1,425)	2,152	2,311	1,603
Exceptional/non-underlying items	2,776	(2,132)	118	(1,167)	709
Finance costs	(1,310)	(1,177)	(1,300)	(1,168)	(1,093)
Finance income	720	314	–	292	237
Profit/(loss) before tax	2,579	(4,420)	970	268	1,456
Profit/(loss) after taxation	2,128	(3,969)	1,107	218	1,416
Basic earnings/(loss) per ordinary share	73.9p	(137.8p)	38.6p	7.7p	51.0p
Adjusted earnings/(loss) per ordinary share	(6.7p)	(59.8p)	35.7p	41.4p	32.9p
Dividend per ordinary share payable in respect of the year	25.0p	4.0p	10.0p	12.0p	12.0p
Balance sheet					
Shareholders' funds	30,143	21,304	20,275	20,270	20,370
Bank borrowings (net)	14,184	8,908	9,491	8,078	8,719
Debt/shareholders' funds (gearing)	47%	42%	47%	40%	43%
Retirement benefit (asset)/liability	(1,864)	3,715	6,358	5,481	6,260

Our Dealerships . . .



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