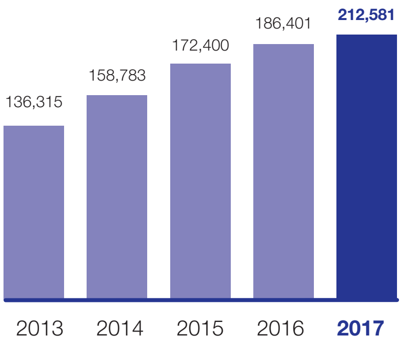
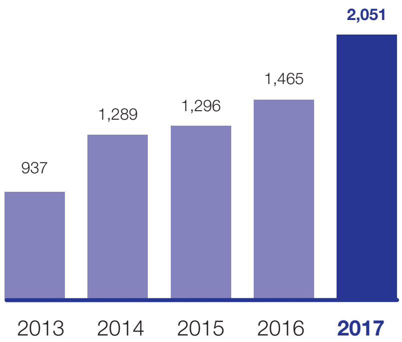
Caffyns plc
Annual Report 2017

Results at a Glance

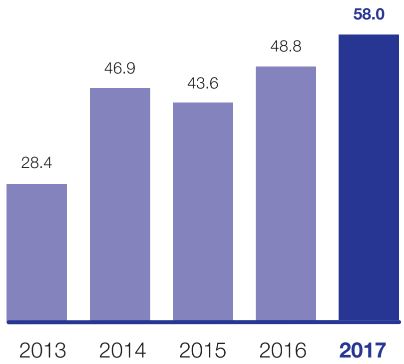
Revenue* (£'000)



Underlying PBT* (£'000)



Adjusted earnings per ordinary share* (pence)



Summary

	2017 £'000	2016 £'000
Continuing operations*: Revenue	**212,581**	186,401
Underlying** EBITDA	**4,158**	3,591
Underlying** profit before tax	**2,051**	1,465
Profit before tax from sale of business	**4,684**	–
Profit before tax (including discontinued operations)	**6,282**	2,635
	p	p
Underlying** earnings per share	**58.0**	48.8
Earnings per share	**186.3**	90.1
Proposed final dividend per ordinary share	**15.00**	14.50
Dividend per share for the year	**22.50**	21.75

* Following a business disposal that occurred in April 2016, the 2017 results have been presented between continuing and discontinued operations. To allow for comparative information to be presented consistently, the 2016 and prior year results have been restated. Further detail is provided in notes 2 and 8 of the Financial Statements.

** Underlying results exclude items that have non-trading attributes due to their size, nature or incidence.

Highlights

- Like-for-like new car unit sales up 9.3% against a 1.0% fall in our market sector
- Like-for-like used car unit sales up 15.9%
- Revenue from continuing operations up 14% to £212.6 million
- Underlying profit before tax up 40% to £2.05 million (2016: £1.47 million)
- Underlying earnings per share up 19% to 58.0p (2016: 48.8p)
- Disposal of Land Rover business in Lewes, retaining its freehold premises, for cash consideration of £7.5 million and a pre-tax profit of £4.68 million
- Recommended dividend per ordinary share for the year increased by 3.4% to 22.5 pence
- Property portfolio revaluation as at 31 March 2017 showed a £10.1 million surplus to net book value (not recognised in the accounts)

Audi, Eastbourne

Volkswagen, Brighton

Contents

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Operational and Business Review

"I am delighted that we have grown our underlying profit before tax by 40%. Our businesses performed well in what was a challenging marketplace."

I am pleased to report that Caffyns Plc (the "Company") grew its underlying profit before tax for the year under review by 40% to £2.05 million (2016: £1.47 million). Our businesses performed well in what was a challenging marketplace.

Profit before tax (including the one-off gain on the disposal of the Land Rover business) increased to £6.28 million (2016: £2.64 million). Basic earnings per share were 186.3 pence against 90.1 pence in 2016. Underlying earnings per share for the year were up 19% to 58.0 pence (2016: 48.8 pence).

Revenue from continuing operations increased by 14.0% to £212.6 million (2016: £186.4 million). The Company reported like-for-like sales growth across all departments: new car unit sales, used car unit sales, service and parts.

At the beginning of this financial year, shareholders approved the sale of our Land Rover business in Lewes. We were very pleased to secure excellent terms, generating a profit on disposal, net of costs and before tax, of £4.68 million. The total cash consideration for the sale was £7.51 million.

The Company finished the year with cash reserves and low gearing and is well placed to exploit future business opportunities. The funds from the sale of the Land Rover business have already enabled us to invest in a new site to facilitate the relocation and expansion of our Audi business in Worthing and invest further in our in-house used car operation with the acquisition of 2.1 acres of land in Ashford. The Board continues to evaluate further investment opportunities.

New and used cars

Our new unit sales were up by 9.3% on a like-for-like basis in the year which compared very favourably with the total UK new car registrations increase of 2.6%. Within this, new car registrations in the private and small business sector in which we principally operate actually fell by 1.0%, so we again significantly outperformed our specific sector. Despite experiencing some pressure on new car margins, new car gross profits were up on last year.

Used car unit sales were up 15.9% on a like-for-like basis, building further on this key area of the business and with no dilution in unit used car margins.

In June 2016, we upgraded our website and this has significantly enhanced our customers' online searching capabilities, leading to an easier, more enjoyable car-buying experience. Over the last three-year period, the Company has recorded 34% like-for-like growth in the number of used cars sold. We continue to see this part of the business as providing a major opportunity for further future growth.

Aftersales

The growth in the UK new car market over the last four years has led to an increase in the number of one to three-year old cars in circulation. Our own strong sales of both new and used cars in that period has meant our three-year car parc has grown considerably. We are encouraged that our service revenues in the year have risen by 11.3% on a like-for-like basis as we continue to place great emphasis on our customer retention programmes. Our parts business also reported strong sales growth, up by 6.2% on a like-for-like basis over the comparative period.

Operations and redevelopment

The redevelopment of our Volkswagen dealership in Eastbourne was completed in April 2016 and now comprises a twelve-car showroom with extended used car display areas as well as a state of the art new workshop. This project was completed on schedule and to budget and is enabling the business to grow. More widely for the brand, the manufacturer commenced the roll-out of the remedial work for cars affected by the defeat-device issue. This work is being carried out at authorised Volkswagen dealerships and, although a carefully managed programme, the nature of the work passing through our service departments has been low margin and has involved certain added costs, such as extra courtesy cars. Therefore, in the year under review, it had a negative impact on service profitability. In addition, we saw some impact on our Volkswagen sales. Despite these challenges, we recorded 6% growth in our Volkswagen new car sales compared to a 5% fall in the manufacturer's own national registrations' performance. We remain confident that the strength of the Volkswagen Brand and the excellent model range will lead to further improvements in the trading performance of our Volkswagen operation.

Our Audi businesses again produced year-on-year growth and we secured planning approval to relocate our dealership in Worthing to a new, and significantly larger, nearby site to ensure this business can better fulfil its potential.

Our Volvo business in Eastbourne traded very strongly, assisted by new model launches. Both the new XC90 and, more recently, the S90, V90 and XC60 have been particularly well received by our customers. We are planning to invest in an expansion of our showroom facility to better accommodate these extra models and we expect the business to continue to grow in the future.

In Tunbridge Wells, our SEAT business has gained considerable extra traction, having more than doubled its new car sales over the comparative prior year period. Together with the adjacent Skoda business, the site has delivered significant improvements in profitability.

In April 2016, we sold our Land Rover business in Lewes for a cash consideration of £7.51 million which included a payment for goodwill of £5.5 million. The sale was approved by ordinary shareholders at a General Meeting on 21 April 2016.

Groupwide projects

We remain focused on generating further improvements in the three key areas of used car sales, used car finance and aftersales. These all contributed towards the increase in profits in the year under review, with particularly strong growth in used car and service labour sales. In addition, we continue to make very good progress utilising technology to enhance the customer-buying experiences from their first point of contact right through the showroom buying process, as well as improving aftersales retention.

Property

We operate primarily from freehold sites and our property portfolio provides additional stability to our business model. During the year, we incurred capital expenditure of £4.64 million (2016: £3.83 million). This included the purchase of freehold land in Ashford and Angmering as well as the finalisation of the upgrade to our Volkswagen dealership in Eastbourne.

In October 2016, we acquired 3.7 acres of land in Angmering, West Sussex to form the site for the relocation of our nearby Audi Worthing business. We anticipate that construction will commence this summer and that the site will be open for business in the summer of 2018.

Also in October 2016, we acquired 2.1 acres of additional land adjacent to our used car centre in Ashford. This investment will almost double the footprint of our operations at Ashford and will enable us to further grow our exciting used car concept as well as our Vauxhall and Skoda operations at the site. This used car concept has been very well received by our customers who particularly value the Caffyns brand. The business has traded profitably since its inception in October 2014 and the purchase of the additional land is now allowing for a significant expansion of this operation.

As part of the sale of the Land Rover business, our freehold premises in Lewes have been leased for a minimum two-year period to April 2018, with a further one-year extension

Volkswagen, Worthing

Operational and Business Review

available at the leaseholder's option. We have recently marketed the freehold and have been encouraged by the indicative responses so far received. The Board continues to evaluate future opportunities for the site.

Our portfolio of freehold premises was revalued as at 31 March 2017 by chartered surveyors CBRE Limited based on an existing use valuation. The excess of the valuation over net book value of our freehold properties was £10.1 million. In accordance with our accounting policies (which reflect those generally utilised throughout the motor retail industry), this surplus has not been incorporated into our accounts.

Bank facilities

The Company's banking facilities with HSBC Bank comprise a four-year revolving credit facility of £7.5 million which commenced in September 2014 and an overdraft facility of £3.5 million. In addition, we have an overdraft facility of £7.0 million provided by Volkswagen Bank together with a term loan, originally of £5.0 million, which is repayable over the ten years to November 2023. Bank borrowings, net of cash balances, at 31 March 2017 were £8.6 million (2016: £11.2 million) and as a proportion of shareholders' funds at 31 March 2017 were 31% (2016: 42%). The reduction in gearing in the year was primarily the result of the cash inflow from the sale of the Land Rover business in April 2016.

Pension Scheme

The Company's defined benefit scheme was closed to future accrual in 2010. In common with many companies, the Board has little control over the key assumptions required by the accounting standards in the valuation calculations. The deficit at 31 March 2017 had increased to £8.55 million (2016: £4.98 million), primarily due to historically low levels of gilt and bond yields. The deficit, net of deferred tax, was £7.1 million (2016: £4.1 million).

The pension cost under IAS 19 continues to be charged as a non-underlying cost and in 2017 amounted to £199,000 (2016: £215,000).

In line with the recovery plan agreed with the trustees following the actuarial valuation as at 31 March 2014, the Company made a cash payment of £306,750 into the scheme in the year to 31 March 2017 (2016: £300,000). This recovery plan payment for the year ending 31 March 2018 will again increase by 2.25%. A triennial actuarial valuation of the scheme is being carried out as at 31 March 2017.

The Board, together with the independent pension fund trustees, continues to review options to reduce the cost of operating the scheme. Any additional actions that could further reduce the deficit over the medium and longer term will be considered.

People

I am very grateful for the dedication of our employees and the effort they apply to provide our customers with a first-class purchasing experience. In particular, our front-line staff have continued to work tirelessly to address potential customer concerns regarding the Volkswagen emissions issue. Across the Company the hard work and professional application of our employees has been rewarded with strong growth in both our sales and aftersales businesses.

Vauxhall, Ashford

Skoda/SEAT, Tunbridge Wells

Volvo Best New Car Sales Growth award

In July 2016, after the Annual General Meeting, Mark Harrison retired from the Board and the Company. Mark played a hugely significant role in the Company since joining as Finance Director in April 2000 and, on behalf of the Board, I would like to thank him for his outstanding contribution throughout this period and wish him well for the future. In his place, we were pleased to appoint Mike Warren as Finance Director at the Annual General Meeting and to welcome him to the Board. Mike brings a wealth of experience to the position, having been Finance Director at the motor dealer H.R. Owen Plc between 2007 and 2015.

Apprenticeships

We have continued to invest in our apprenticeship programme and have seen the benefits flow through the business as more apprentices complete their training and become fully qualified. Our recruitment programme continues and we will be taking on an increasing complement in the coming year to further aid our growth.

Dividend

The Board has decided to recommend a final dividend of 15.0 pence per Ordinary share (2016: 14.5 pence). If approved at the Annual General Meeting, this will be paid on 4 August 2017 to ordinary shareholders on the register at close of business on 7 July 2017.

Together with the interim dividend of 7.50 pence per Ordinary share (2016: 7.25 pence) paid during the year, the total dividend for the year will be 22.50 pence per Ordinary share (2016: 21.75 pence).

Strategy

Our strategy to focus on representing premium and premium-volume franchises continues to prove successful. The significant proceeds from the sale of our Land Rover business in Lewes, coupled with our low gearing, has provided us with the flexibility to expand upon our recent successes, particularly in the used car arena, and to invest in future growth.

We are concentrating on larger business opportunities in stronger markets to deliver higher returns on capital from fewer but bigger sites. We are also more effective in being able to deliver performance improvement, although we remain dependent on the key months of September and March.

The focus on improving operational processes has resulted in an encouraging increase in used car sales and in aftersales. Our overall success in increasing our new and used sales coupled with our improved aftersales retention programmes will enable us to further enhance profitability.

In addition to investing in freehold land, in Ashford and Worthing, we are assessing opportunities to grow the Company's business and its underlying profitability.

Outlook

The year to 31 March 2017 has seen us deliver new car sales ahead of the market in addition to impressive growth in used car sales and aftersales. Low interest rates and attractive marketing offers have continued to underpin the motor retail sector with most cars now being sold under contracts rather than by outright purchase. However, the UK's decision to leave the European Union, coupled with the wider challenge to the UK economy from the weakness of sterling, means that the Board remains cautious for the coming year, particularly given the market consensus for a smaller new car market in 2017. We are well placed for organic growth and with low gearing and cash reserves, the Company is also in a position to exploit future business opportunities.

S G M Caffyn
Chief Executive
25 May 2017

Strategic Report

Business model

Caffyns is one of the leading motor retail and aftersales companies in the south-east of England. The Company's principal activities are the sale and maintenance of motor vehicles including the sale of tyres, oil, parts and accessories. The Operational and Business Review, which forms part of the Strategic Report, principally covers the development and performance of the business and the external environment and is set out on pages 2 to 5. The main Key Performance Indicators are:

Financial	2017	Restated 2016
Revenue	**£212.58m**	£186.40m
Underlying profit before tax	**£2.05m**	£1.47m
Profit for the year before tax (including discontinued businesses)	**£6.28m**	£2.64m
Underlying earnings per share	**58.0p**	48.8p
Earnings per share	**186.3p**	90.1p
Bank overdrafts and loans (net)	**£8.55m**	£11.16m
Gearing	**31%**	42%

Note: Underlying results exclude items that have non-trading attributes due to their size, nature or incidence. Following a business disposal that occurred in April 2016, the 2017 results have been presented between continuing and discontinued operations. To allow for comparative information to be presented consistently, the 2016 results have been restated.

Non-Financial		
UK new car market – total registrations	**2.74m**	2.67m
UK new car market – retail and small business sectors	**1.33m**	1.34m
Group employees (full time equivalents)	**414**	384

Business performance

New and Used Cars

Our new unit sales were up by 9.3% on a like-for-like basis. Over the twelve-month period, total UK new car registrations rose by 2.6%. Within this, the private and small business sector in which we operate fell by 1.0% so we again outperformed the specific sector in which Caffyns operates. Our premium and premium-volume franchises continue to perform well.

Used car unit sales were up 15.9%.

Aftersales

We have seen an increase in the overall size of the 0 to 5-year-old car servicing market and this, combined with improvements to customer retention rates for many of our marques, has resulted in an 8.8% increase in like-for-like aftersales revenues. The actions we have taken to enhance our aftersales marketing and retention procedures, together with our improving new and used car sales, will help to further accelerate this trend.

Business strategy

The Company has focused on the premium and premium-volume market where it believes that there is greater resilience to delivering stronger sales, profits and returns. It now represents a strong portfolio of six franchises of Audi, SEAT, Skoda, Vauxhall, Volkswagen and Volvo. We generally operate from our own freehold properties which we believe offers better long-term returns and greater flexibility. Proceeds from disposals of properties are generally reinvested in its property portfolio.

Principal risks and uncertainties

Risk is an accepted part of doing business and the Company 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 us and they should therefore not be considered to be a complete set of all potential risks and uncertainties. The risk factors should be considered alongside the statement on internal control and risk management included in the Chairman's Statement on Corporate Governance on pages 12 to 17. Other financial risk management factors are referred to in notes 16 and 18 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 Company 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 Company believes that this diversity reduces the potential impact on the group. In addition, the Company continues to develop its own marketing initiatives.
Used car prices	Used car prices can decline significantly. A large proportion of our 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 inventories and a firm policy of inventory management help to mitigate this risk. Impact also mitigated by revenue streams balanced between aftersales, new and used car sales.
Vehicle manufacturer dependencies	Caffyns operates franchised motor car dealerships. These franchises are awarded to the Company 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.	Diversifying through representing multiple marques reduces the potential dependency on any single manufacturer. Revenue streams from other activities (aftersales and used vehicles) prevent over-reliance on new vehicle sales.
Liquidity and financing	Liquidity and financing risks relate to our ability to pay for goods and services enabling us to trade. Our principal sources of finance are from our bankers by way of committed borrowing facilities, from manufacturers to fund the purchases of inventories 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 Company.	We work closely with providers of finance to help reduce this risk by managing expectations of trading results and utilisation of facilities. The status of our bank facilities is set out in note 18. The Statement of Financial Position has also strengthened significantly over the past five years and this, together with negotiated facilities, provides sufficient liquidity and funding. We do not presently hedge against interest rates but the position is kept under review.
Regulatory compliance	The Company 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.	The direction of new regulatory policy is monitored through close contact with relevant trade and representative bodies and these are carefully considered when developing strategy.

Strategic Report

Principal risks	Potential impact/material risk	Key controls and mitigating factors
Information systems	The Company 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 our businesses.	The Board has implemented a series of contingency plans which would enable the resumption of operations within a short space of time, thus mitigating the likelihood of material loss.
Competition	Caffyns competes with other franchised vehicle dealerships, private buyers and sellers, internet based dealers, independent service and repair shops and manufacturers who have entered the retail market. The sale of new and used vehicles, the performance of warranty repairs, routine maintenance business and the supply of spare parts operate in highly competitive markets. The principal competitive factors are price, customer service and knowledge of a manufacturer's brands and models. We also compete with funders who finance customers' vehicle purchases directly.	To mitigate this risk, we regularly monitor our competitors' activities and seek to price our products competitively, optimise customer service, efficiently utilise our customer database and fully understand our manufacturers' brands and products.
Changes in EU legislation in relation to the distribution and sale of vehicles	Aftersales agreements are legislated by a Block Exemption, dictating that aftersales businesses which meet manufacturers' qualitative standards criteria have an entitlement to represent the brands' aftersales service and parts franchise. Sales agreements are granted by car manufacturers based on standards, but agreements are restricted to territories granted by manufacturers, who also determine choice of partner, enabling them to restrict the number of outlets any dealer can hold or entry into the franchise.	By continuing to focus on providing excellent customer facilities, excellent customer service and providing high level representation for the Company's manufacturer partners, current business relationships will be maintained, providing opportunities for selective growth.
Pension scheme	Caffyns 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 plan and may result in increased cash contributions in future.	The Company regularly reviews the position of the defined benefit pension plan through regular meetings of a Pensions Sub-Committee, chaired by the Chairman of the Audit Committee. Through this sub-committee, the Company has an ongoing review of possible options to mitigate the risk of underlying volatility causing an increase in the deficit.
Political uncertainties	Following the UK's decision to leave the EU together with wider global political developments, a degree of uncertainty in the UK economy has been created and we believe the main risks to arise from this relate to consumer confidence and the potential impact that sterling/euro exchange rates may have on vehicle prices and possible restriction on imports of cars and parts into the UK.	We continue to focus on delivering an excellent service to new and existing customers, giving confidence in our operations and building a strong loyalty base and to maintaining our close working relationship with our six manufacturers.

Corporate Social Responsibility, Human Rights and Diversity

Caffyns has a long-standing Corporate and Social responsibility agenda including its approach to employees, the environment, and health and safety. We are also conscious of human rights issues within the Company and the key area that would impact our business would be across our supply chain. Our supply chain is predominantly the major international motor manufacturers who also take these issues very seriously.

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

The table below gives the numbers of our employees in each category, by gender, as of 31 March 2017.

	Female	Male	Total
Director	1	5	6
Senior management	1	12	13
All employees	109	348	457

Employees

We recognise that our people are our key asset and are responsible for delivering our strategy. We continue to invest in an enhanced training and development programme, with particular support from our manufacturer partners. The positive approach shown by all employees throughout the Company's businesses has been key to this success.

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

Good performance from employees is recognised every four months by their peer group who nominate employees for awards and formal recognition company-wide.

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

We have a dedicated "Intranet" which keeps employees up to date with company developments and activities. This platform also includes the Company's policies and procedures. Long service awards were made during the year to those staff with 25 years' continuous service. All employment policies remain compliant with current legislation.

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

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

We have continued to increase the numbers on our apprenticeship programme and we are now seeing the benefits as we see encouraging signs of growth in the economy. We look to further recruit both apprentices and others across the Company's businesses as we continue to grow.

Environment

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

We also seek to reduce our 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 Company's businesses. Use of the latest building materials is made in the construction of new sites and the refurbishment of existing locations.

Strategic Report

Mandatory Carbon Reporting

This section includes our mandatory reporting of greenhouse gas emissions for the period 1 January 2016 to 31 December 2016, the latest annual period for which data is available, and is pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. We report our emissions data using an operational control approach taking data for which we deem ourselves responsible, including both energy consumption and vehicle usage for business use. In the 2016 calendar year our businesses emitted 1,453.60 tonnes of carbon dioxide or CO_2 (2015: 1,584.32 tonnes). Our emissions are principally of carbon dioxide (CO_2), and are from the following sources:

Greenhouse gas emissions data	Tonnes of CO_2 2016	Tonnes of CO_2 2015	Tonnes of CO_2 2014 (Base year)
Scope 1			
Gas consumption	303.34	277.39	286.60
Owned transport	96.21	121.82	136.98
Water supply	4.20	4.53	6.54
Scope 2			
Purchased Electricity	1,049.60	1,169.52	1,126.33
Generated Electricity	0.25	11.06	–
Statutory total (Scope 1 and 2)	**1,453.60**	**1,584.32**	**1,556.45**
Revenue	£217.35m	£228.21m	£208.16m

We have selected emissions £million of revenues per tonne as our intensity ratio, as this in our view provides the best comparative measure over time.

2014 – Intensity ratio (tonnes of CO_2 per £million of revenue): 7.48 tonnes per £million of revenue.

2015 – Intensity ratio (tonnes of CO_2 per £million of revenue): 6.94 tonnes per £million of revenue.

2016 – Intensity ratio (tonnes of CO2 per £million of revenue): 6.69 tonnes per £million of revenue.

Our Greenhouse Gas emissions associated with waste arise from several waste streams generated from our business. As conversion to CO_2e data is not readily available for all of these waste streams, we have chosen to report this in weight and percentage of waste recycled/landfill opposed to CO_2. Waste in 2016 was 511.4 tonnes (2015: 545.4 tonnes) of which 81% was recycled (2015: 80%).

Reducing carbon and waste

During the year, we have continued to assess and monitor our energy use with improved data information and, where practicable, to implement measures designed to reduce our activities' environmental impact.

Climate change influences seasonal energy usage and while, at times, we benefit from milder weather we are aware that any adverse change could affect energy usage. To this end we continue, where practicable, to install LED lights in our sites; these use significantly less energy than conventional lighting. In addition, we limit the duration of periods when full lighting is used, using sensors and timers to further reduce the energy we use. We continue to improve our energy use and efficiency by replacing old equipment with new efficient units and ensuring workshop doors are closed when not in use by fitting automatic closing devices. We seek to limit our paper consumption and waste through increasingly paperless communications and systems. Water use in valeting areas uses recycling facilities, where practicable, and all sites have appropriate water filtration systems.

Health and safety

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

By order of the Board

S G M Caffyn
Chief Executive
25 May 2017

Board of Directors

Honorary President	ALAN M CAFFYN DL C ENG MI MechE FIMI
Directors	RICHARD C WRIGHT PG Dip FIMI FCIM *Chairman*
	SIMON G M CAFFYN MA FIMI *Chief Executive*
	MICHAEL WARREN BSc ACA *Finance*
	SARAH J CAFFYN BSc FCIPD AICSA FIMI *Human Resources*
	NIGEL T GOURLAY BSc FCA *Non-executive and Senior Independent Director*
	NICHOLAS W HOLLINGWORTH BSc *Non-executive*
Bankers	HSBC BANK plc Global House, High Street, Crawley RH10 1DL
	VOLKSWAGEN BANK Brunswick Court, Yeomans Drive, Blakelands, Milton Keynes MK14 5LR
Independent Auditor	GRANT THORNTON UK LLP St Johns House, Haslett Avenue West, Crawley RH10 1HS
Company Secretary	SARAH J CAFFYN BSc FCIPD AICSA FIMI
Registered Office	4 Meads Road, Eastbourne, East Sussex BN20 7DR Telephone (01323) 730201

Chairman's Statement on Corporate Governance

Caffyns plc is committed to maintaining the highest standards of corporate governance. This Report and the Directors' Remuneration Report describe how it complies with the provisions of the UK Corporate Governance Code 2014 ("the Code").

The Company has complied throughout the year ended 31 March 2017 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 reviews the position annually and decided that it is not in the best interests of the Company to change the existing contract. Additionally, one non-executive director has served for a period in excess of nine years and can no longer be considered independent. The Board believe that following a period of significant developments within the business, further changes to Board personnel would have a detrimental impact on the business.

A description of the Company's business model and strategy is set out in the Strategic Report on page 6.

Structure of the Board and its key activities

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

Schedule of matters reserved for decision by the Board

- Business strategy
- Approval of significant capital projects and investments
- Principal terms of agreements for the 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 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 overall corporate governance arrangements
- Appointments to the Board and its committees
- Policies relating to directors' remuneration and service
- Prosecution, defence or settlement of material litigation
- Any alterations to the share capital of the Company
- Approval of all circulars and announcements to shareholders
- Major changes to the Company's pension schemes
- Insurance cover including directors' and officers' liability insurance and indemnification of directors

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

As part of their role, the non-executive directors constructively challenge and help develop proposals on strategy. The non-executive directors scrutinise management's performance in meeting agreed goals and objectives and monitor the reporting of performance. They satisfy themselves on the integrity of financial information and that financial controls and systems of risk management are robust and defensible. They determine appropriate levels of remuneration of executive directors and have a prime role in appointing and, where necessary, removing executive directors, and in succession planning. Non-executives formally meet without the executives at least once a year.

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

The Board delegates certain of its duties to its Audit, Nomination and Remuneration Committees, each of which operates within prescribed terms of reference. These are set out on the Company's website. The responsibilities of the Board's committees are set out on pages 14 to 15 of this Report and in the Directors' Remuneration Report.

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

Performance evaluation

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

Individual director evaluation has shown that each director (including those seeking re-election at the Annual General Meeting in 2017) continues to demonstrate commitment to the role. The non-executive directors, led by the senior independent director, have 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 or her duties as a Board member. The Chairman discusses the training and development needs of each director.

Board composition and independence

As at 25 May 2017 the Board comprises three executive directors and three non-executive directors, one of whom is the Chairman. Mr R C Wright is the non-executive Chairman and Mr S G M Caffyn is the Chief Executive. The Chairman leads the Board and the Chief Executive manages the Company and implements the strategy and policies adopted by the Board. There is a clear division of responsibility between the role of the non-executive Chairman and Chief Executive and this is recorded in a written statement and is reviewed and agreed annually by the Board. The Chairman is responsible for leadership of the Board and ensuring its effectiveness for all aspects of its role.

In March 2017, Mr N Hollingworth had served as a non-executive director for nine years. After this period, according to the Code, a non-executive director can no longer be considered as independent and therefore does not comply with its requirements. During a period in which the Company is experiencing a significant amount of development within its business, it is believed that further changes at this time would be detrimental and not in the best interests of shareholders.

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

Directors' conflicts of interest

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

Balance and challenge

The non-executive directors complement the skills and experience of the executive directors, providing the requisite degree of judgement and scrutiny to the decision-making process at Board and committee level. Mr N T Gourlay is the senior independent director.

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

Re-election of directors

In accordance with the Company's Articles of Association, all directors seek re-election by rotation at least once in every three years. Having served for a period in excess of nine years, Mr N W Hollingworth will now seek re-election annually.

Meetings and attendance

There were eight meetings of the Board in the year under review and all meetings were attended by all directors eligible to attend.

Chairman's Statement on Corporate Governance

Nomination Committee

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

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

The Nomination Committee is responsible for leading the process for appointments to the Board and meets at least once a year. During the year under review, the Committee oversaw the process of identifying and appointing a new Finance Director to replace Mr M S Harrison who retired in July 2016. The Committee is chaired by Mr R C Wright. The Company Secretary or alternate also attends meetings in her capacity as secretary of the Committee. Where the matters discussed relate to the Chairman, such as in the case of selection and appointment of the Company Chairman, the senior independent director chairs the Committee. New directors receive a full, formal and tailored induction on joining the Board. The principal responsibilities of the Committee are as follows:

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

The Committee met twice during the year and all members eligible to attend were present.

Audit and Risk Committee

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

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

The Committee is chaired by Mr N T Gourlay. The Company Secretary or alternate also attends meetings in her capacity as Secretary of the Committee. The Chairman of the Committee is considered by the Board as having recent and relevant financial experience. The Audit and Risk Committee meets at least three times a year. The meetings are attended by invitation, by the Executive Directors, the head of the internal audit function and representatives of the Company's external auditor, at the Chairman's discretion.

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

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

The Committee's third meeting is primarily concerned with:

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

The Committee met three times in the year under review and all meetings were attended by all directors eligible to attend. It has reviewed the effectiveness of the Company's system of internal control and financial risk management during the year ended 31 March 2017, including the review of the Company's risk register, and including consideration of reports from both the internal and external auditors. The Audit and Risk Committee has reported the results of its work to the Board and the Board has considered these reports when reviewing the effectiveness of the Company's system of internal control, which forms part of the Board's high-level risk review performed during the year. The effectiveness of the internal audit function is also monitored.

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

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

Anti-Bribery

During the year, as well as its routine business, the Committee has assessed the suitability of the Company's controls designed to combat bribery so as to satisfy itself of the adequacy of its 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 Committee has reviewed the 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 internal procedures which may be required.

Non-audit services provided by the external auditor

Non-audit services provided by the Company's auditor are kept under review by the Committee. These will generally be compliance services in the field of taxation advice albeit for the 2017 financial year the auditors provided transaction advisory services in relation to the disposal of the Land Rover business. The Committee ensures that the auditor's objectivity and independence are safeguarded by means of the use of separate teams of staff and by ensuring that the level of fees is not material to either the Company nor the auditors. The report from Grant Thornton UK LLP confirming their independence and objectivity was reviewed by the Chairman of the Audit and Risk Committee and the Finance Director. The level of fees paid to Grant Thornton UK LLP for non-audit services is not regarded to conflict with auditor independence. Fees payable to the auditors are set out in note 3 on page 56.

Chairman's Statement on Corporate Governance

Effectiveness and independence of external auditor

Grant Thornton UK LLP has been external auditor since 1964. As part of this year's decision to recommend the reappointment of the auditor, the Committee has taken into account the tenure of the auditor and the need to consider at least every ten years whether there should be a full tender process. There are no contractual obligations that restrict the Audit and Risk Committee's choice of external auditor. In accordance with the auditor independence requirements of the revised Ethical Standard effective 11 June 2016, Grant Thornton UK LLP's appointment as auditor cannot be extended beyond the year ending 31 March 2021 and Grant Thornton UK LLP no longer provide corporation tax compliance services to the Company.

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

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

Tax strategy and objective

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

Going concern

The directors are satisfied that, after making enquiries, the Company 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 Company 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 its banking facilities remain available to them and are appropriate given current and medium-term plans. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. Further details surrounding the directors' rationale regarding the going concern assumption are included in Principal Accounting Policies on pages 49 and 50.

Information concerning the Company's liquidity and financing risk are set out on page 7 and note 18 to the financial statements.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the directors have assessed the viability of the Company over a three-year period to 31 March 2020. The directors believe this period to be appropriate as the Company's strategic review considered by the Board encompasses this period. In making their assessment the directors have considered the Company's current financial position and performance, cash flow projections including future capital expenditure, in relation to the availability of finance and funding facilities and have considered these factors in relation to the principal risks and uncertainties which are included in the Report of the Directors.

During the year to 31 March 2017, the Board carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The directors believe that the Company is well placed to manage its business risks successfully, having considered the principal risks and uncertainties. Accordingly, the Board believes that, taking into account the Company's current position, and subject to the principal risks faced by the business, the Company will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 March 2020.

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 Company'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 Company, 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 and Risk 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 organisational 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 Company. The executive directors receive regular reports from the internal audit and health and safety monitoring functions which include recommendations for improvement.

Relations with shareholders

The Board values the constructive views of its shareholders and recognises their interest in the Company'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 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. The chairmen of the Audit and Risk, Remuneration and Nomination 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, indicates the level of proxies lodged on each resolution.

Approved by order of the Board

R C Wright
Chairman
25 May 2017

Directors' Remuneration Report

ANNUAL STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Introduction

On behalf of your Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 March 2017. This Directors' Remunerations Report has been prepared on behalf of the Board by the Remuneration Committee ("the Committee") in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 and is split into two sections:

- the directors' remuneration policy sets out the Company's intended policy on directors' remuneration from 23 July 2014 which was subject to a binding shareholder vote at the 2014 Annual General Meeting and at least every subsequent third year after that; and
- the annual report on remuneration sets out payments and awards made to the directors and details the link between Company performance and remuneration for the 2017 financial year and will be subject to an binding shareholder vote at this year's Annual General Meeting.

The information set out on pages 19 to 30 (the annual report on remuneration) is subject to audit apart from the performance graph and table, the change in remuneration of the Chief Executive, the relative importance of the spend on pay, the implementation of remuneration policy in 2014, the considerations by the directors of matters relating to directors' remuneration and the statement of shareholder voting at the 2016 Annual General Meeting.

Remuneration outcomes for the 2017 financial year

Annual bonus opportunities are based on the achievement of profit before tax targets. Bonuses of 30% of eligible salary have been awarded to the executive directors in respect of the 2017 financial year, which reflects the good financial results of the Company for the year.

Key remuneration decisions for the coming 2018 financial year

The base salaries for the executive directors were increased by 2.0% with effect from 1 April 2017. Salaries for all employees were increased by an overall average of 2.0% with effect from 1 April 2017.

Conclusion

The directors' remuneration policy which follows this annual statement sets out the Committee's principles on remuneration for the future and the annual report on remuneration provides details of remuneration for the year ended 31 March 2017.

The Committee will continue to be mindful of shareholder views and interests, and we believe that our directors' remuneration policy continues to be aligned with the achievement of the Company's business objectives.

By order of the Board

N W Hollingworth
Chairman of the Remuneration Committee
25 May 2017

REMUNERATION POLICY

The policy of the Committee is to ensure that the Executive Directors are fairly rewarded for their individual contributions to the Company's overall performance and to provide a competitive remuneration package to executive directors to attract, retain and motivate individuals of the calibre required to ensure that the Company is managed successfully in the interests of shareholders. In addition, the Committee's policy is that a substantial proportion of the remuneration of the executive directors should be performance related.

The Company's current directors' remuneration policy is voted on every three years and was last approved by shareholders on 23 July 2014 at the Annual General Meeting and became effective from that date. The full policy was disclosed in the 2016 Annual Report which is available on the Caffyns plc website located at www.caffynsplc.co.uk.

Future policy table

The main elements of the remuneration package of Executive Directors are set out below:

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Base Salary			
Provide competitive remuneration that will attract and retain high calibre executive directors to deliver strategy.	Reviewed annually effective from 1 April to reflect role, responsibility and performance of the individual and the Company, and to take account of rates of pay for comparable roles in similar companies. Paid in 12 equal monthly instalments during the year. When selecting comparators, the Committee has regard to the Company's revenue, market worth and business sector.	Executive directors awarded 2.0% increase from 1 April 2017. There is no prescribed maximum increase. Annual rate set out in the annual report on remuneration for the current year and the following year.	The Committee considers individual salaries at the appropriate Committee meeting each year taking due account of the factors noted in the operation of the salary policy.
Benefits			
Provide market competitive benefits consistent with role.	Currently these consist of provision of company cars, health insurance, business related subscriptions and the opportunity to join any Company savings related share option scheme ("SAYE").	The cost of providing benefits varies from time to time and is borne wholly by the Company except for health insurance where the Company contributes half of the cost.	Not applicable.

Directors' Remuneration Report

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Annual Bonus			
Incentivises achievement of business objectives by providing a reward for performance against annual targets.	Paid in cash after the end of the financial year to which it relates.	Up to 100% of salary.	Targets based on the underlying profit before tax of the Company. The Committee sets threshold and maximum targets on an annual basis. In general: • a percentage of the maximum bonus is payable for hitting the threshold target. • 100% of the maximum bonus is payable for meeting or exceeding the maximum target. A sliding scale operates between threshold and maximum performance and no bonus is payable where performance is below the threshold. Payment of any bonus is subject to the overriding discretion of the Committee.
Long-term incentives			
Alignment of interests with shareholders by providing long-term incentives delivered in the form of shares.	Directors are able to apply for maximum entitlement under the rules of any Company SAYE scheme.	See page 28 for details.	Not applicable.
Pension			
Attract and retain executive directors for the long term by providing funding for retirement.	Executive directors are eligible to join the Company's staff pension scheme on the same terms as staff generally. In accordance with the rules of the Company pension scheme, applicable to all members of the scheme, bonuses are pensionable. As a result of the changes in pensions' legislation effective from 6 April 2006, during the year the Company has paid a salary supplement to the executive directors in lieu of the employers' contribution to the Company's pension scheme.	3% of base salary plus bonus.	Not applicable.

Notes to the policy table

Performance conditions

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

The performance target for the annual bonus is based on underlying profit before tax as outlined on page 26. The Committee is of the opinion that this performance target is commercially sensitive for the Company and that it would therefore be detrimental to the Company to disclose details of the target in advance. The targets will be disclosed after the end of the financial year in the annual report on remuneration.

Changes from policy operating in the year ended 31 March 2017

There were no changes to policy arising in the year.

Differences from remuneration policy for all employees

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

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

The Committee receives reports on an annual basis on the level of pay rises awarded across the Company and takes these into account when determining salary increases for executive directors. In addition, the Committee receives reports on the structure of remuneration for senior management in the tier below the executive directors and uses this information to ensure a consistency of approach for its most senior managers.

The Committee does not specifically invite employees to comment on the directors' remuneration policy, but it does take note of any comments made by employees.

Statement of consideration of shareholder views

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

Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to offer a market competitive remuneration package sufficient to attract high calibre candidates who are appropriate to the role but without paying any more than is necessary.

Any new executive director's regular remuneration package would include the same elements and be in line with the policy table set out earlier in the directors' remuneration policy, including the same limits on performance related remuneration.

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

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

Directors' Remuneration Report

Directors' service contracts, notice periods and termination payments

Provision	Policy	Details	Contractual provisions on a change of control of the Company	Other provisions in specific service contracts
Notice periods in executive directors' service contracts.	12 months by executive director and the Company.	Executive Directors may be required to work during the notice period.	12 months by executive director and the Company.	S G M Caffyn may give six months' notice but is entitled to two years' notice from the Company and an unreduced early retirement pension. M Warren may give three months' notice and is entitled to three months' notice from the Company. This period increases to six months from 30 May 2017
Compensation for loss of office.	No more than twelve months' basic salary, bonus and benefits (including Company pension contributions).	None.	None except for the Chief Executive.	Termination payment to S G M Caffyn following a change of control comprises cash amount equal to two years' basic salary, bonus and benefits (including Company pension contributions).
Treatment of annual bonus on termination.	Bonuses which have already been declared are payable in full. In the event of termination by the Company (except for cause) a pro-rated bonus to the end of the notice period is also payable.	None.	None.	None.

Provision	Policy	Details	Contractual provisions on a change of control of the Company	Other provisions in specific service contracts
Treatment of unvested SAYE options.	Good leavers may exercise their options within six months of cessation (one year for death). Options of leavers for fraud, dishonesty or misconduct lapse. Options of other leavers may be exercised within six months of cessation, but only to the extent that they would ordinarily become vested during that time. There is no discretion to treat any such leaver as a "good leaver".	Other than death, good leaver circumstances comprise: injury, disability, redundancy, retirement or transfer of employing business outside the Company. The number of options that can be exercised is reduced pro-rata to reflect the proportion of the vesting period before cessation.	The number of options that can be exercised is reduced pro-rata to reflect the proportion of the vesting period before cessation.	Not applicable.
Exercise of discretion.	Intended only to be relied upon to provide flexibility in unusual circumstances.	The Committee's determination would consider the particular circumstances of the executive director's departure and the recent performance of the Company.	Not applicable.	Not applicable.
Outside appointments.	Subject to approval.	Board approval must be sought.	Not applicable.	Not applicable.
Non-executive directors.	Appointed for three-year terms.	Compensation of six months' fees payable if required to stand down.	Not applicable.	Having served for more than nine years, N W Hollingworth is now appointed for a twelve-month term.

In the event of the negotiation of a compromise or settlement agreement between the Company and the departing director, the Committee may make payments it considers reasonable in settlement of potential legal claims. Such payments may also include reasonable reimbursement of professional fees in connection with such agreements.

The Committee may also include the reimbursement of repatriation costs or fees for professional or outplacement advice in the termination package, if it considers it reasonable to do so. It may also allow the continuation of benefits for a limited period.

Directors' Remuneration Report

Service contracts

Executive directors are appointed under rolling service contracts, whereas non-executive directors each have a fixed-term appointment of three years, renewable upon expiry at the Company's discretion. Having served for more than nine years, Mr N W Hollingworth is appointed for a period of one year. When considering the re-appointment of a non-executive director, the Board reviews his attendance at, and participation in, meetings and his overall performance, and also takes into account the balance of skills and experience of the Board as a whole.

Director	Commencement*	Expiry	Unexpired term at 31 March 2017 (months)
R C Wright	1 November 2014	31 October 2017	7
N W Hollingworth	1 February 2017	31 January 2018	10
N T Gourlay	26 September 2016	25 September 2019	30

* commencement of current renewal contract

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

Fees from external directorships

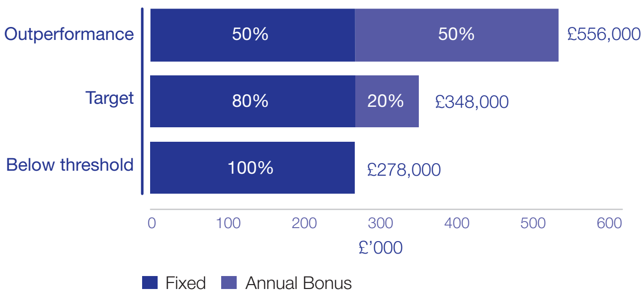
None of the executive directors holds office as a non-executive director of other companies other than in a voluntary or honorary (that is, unpaid) capacity. Accordingly, the Company does not have a formal policy on whether an executive director may or may not keep fees gained from holding an external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

Total remuneration opportunity for the year ending 31 March 2018

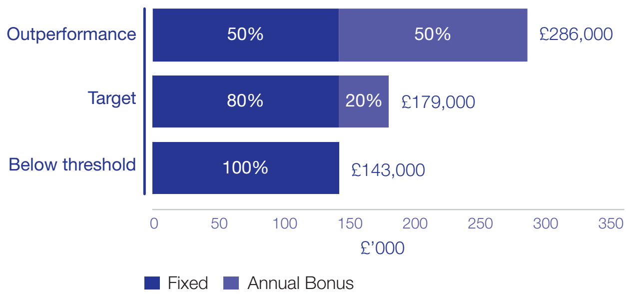
The chart below illustrates the remuneration that would be paid to each of the Executive Directors under three different performance scenarios: (i) Below threshold; (ii) On Target and (iii) Outperformance.

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

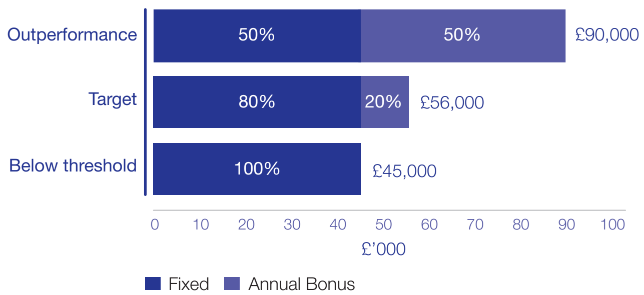
S G M Caffyn



M Warren



S J Caffyn



Each element of remuneration is defined in the table below:

Element	Description
Fixed	Base salary
Annual bonus	Annual bonus awards

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

Non-executive directors' ("NEDs") fee policy

The policy for the remuneration of the non-executive directors is as set out below. Non-executive directors are not entitled to a bonus, they cannot participate in the Company's SAYE schemes and they are not eligible for pension arrangements.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Non-executive director fees			
To attract NEDs who have broad range of experience and skills to oversee the implementation of our strategy.	NED fees are determined by the Board within the limits set out in the Articles of Association and are paid in 12 equal monthly instalments during the year.	Reviewed annually to reflect the role, responsibility and performance of the individual and the Company. Annual rate set out in the annual report on remuneration for the current year and the following year. No prescribed maximum annual increase.	None.

Save for the performance graph and table, the change in the remuneration of the Chief Executive, the relative importance of the spend on pay, the implementation of remuneration policy for 2018, the consideration by the directors of matters relating to directors' remuneration and the statement of shareholder voting at the 2016 Annual General Meeting, the information set out in this part of the Directors' Remuneration Report is subject to audit.

Directors' Remuneration Report

ANNUAL REPORT ON REMUNERATION

Single total figure of remuneration for 2017

The following table shows a single total figure of remuneration in respect of qualifying services for the 2017 financial year for each director, together with comparative figures for 2016. The information provided in this part of the Directors' Remuneration Report is subject to audit.

	Salary and fees £000		Taxable benefits £000		Annual bonus £000		In lieu of pension contributions £000		Total £000	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Executive directors										
S G M Caffyn	273	267	15	13	84	118	11	12	383	410
M S Harrison*	62	183	4	13	19	80	5	7	90	283
M Warren*	93	–	6	–	36	–	4	–	139	–
S J Caffyn	44	44	4	4	14	19	2	2	64	69
Total	472	494	29	30	153	217	22	21	676	762
Non-executive directors										
R C Wright	63	61	–	–	–	–	–	–	63	61
N W Hollingworth	28	27	–	–	–	–	–	–	28	27
N T Gourlay	28	27	–	–	–	–	–	–	28	27
Total	119	115	–	–	–	–	–	–	119	115
Aggregate directors' emoluments	591	609	29	30	153	217	22	21	795	877

* M Warren was appointed to the Board on 31 May 2016 and assumed the role of Finance Director upon the retirement of M S Harrison on 31 July 2016.

In addition to the amounts disclosed in the table above, S G M Caffyn and S J Caffyn each exercised their right to purchase 2,261 shares through the SAYE scheme following its maturity in August 2016. The exercise price of each share was £3.12 and the total value of these options for each individual was £5,675.

Annual bonus

Bonuses are earned by reference to the financial year and paid in May following the end of the financial year. The bonuses accruing to the executive directors in respect of the year ended 31 March 2017 are based on the underlying profit before tax as shown below:

					Bonus value as % of salary					
				Actual	S G M Caffyn		M Warren		S J Caffyn	
	Threshold	Target	Maximum	performance	Max	Actual	Max	Actual	Max	Actual
Underlying profit before tax*	£1.91m	£1.91m	£4.28m	£2.05m	100%	30%	100%	30%	100%	30%
Bonus receivable	15%	15%	100%	30%	£84,311		£35,923		£13,687	

M S Harrison was employed as Finance Director for four months of the year until 31 July 2016 and earned a bonus equal to 30% of his earnings for that period.

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

Pension entitlements and cash allowances

Two executive directors are deferred members of the Company's closed defined benefit pension scheme ("the DB Scheme") at the year-end (2016: three). The pensions of the Chief Executive and Company Secretary 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 Company's pension scheme. The value of share options or other benefits does not form part of pensionable salary. The pension scheme provides for the payment of benefits on death or disability. The following pension benefits accrued to directors from the Company:

	Normal Retirement date	**Total annual accrued pension at 31 March 2017 £'000**	Total annual accrued pension at 31 March 2016 £'000
S G M Caffyn	1 December 2025	**114**	113
S J Caffyn	12 December 2033	**33**	33

The total annual accrued pension excludes transferred-in benefits.

Normal retirement age for members of the defined benefit pension scheme is 65. On early retirement before age 65, accrued pension is discounted by 5% per annum (2016: 5%) simple, except where the Company consents to early retirement between 60 and 65, and then no discount would be applied in respect of accrued benefits earned up to 31 March 2017. 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 price indexation which may be limited. On death, a one-half spouse's pension is due. Children's allowances to a maximum, including spouse's pension, of 100% of the executive's pension may be payable. Allowance is made in transfer value payments for discretionary benefits.

In the year to 31 March 2017, none of the directors were members of the Company's Defined Contribution Scheme (2016: None).

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

Statement of directors' shareholdings

The directors' shareholdings as at 31 March 2017 are summarised within the Report of the Directors.

Directors' Remuneration Report

All employee share scheme

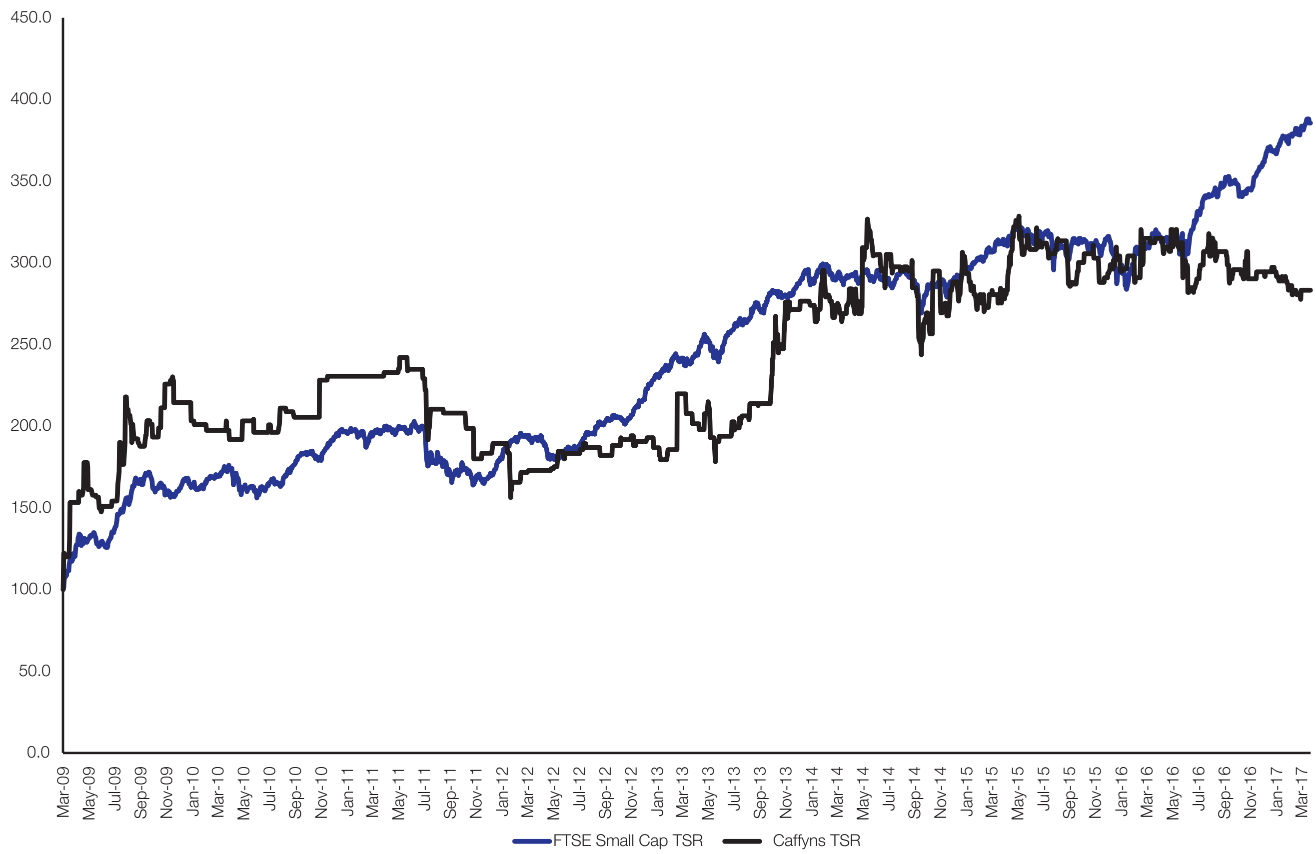
Details of share options held by executive directors under the SAYE Scheme 2013 (see note 20 on page 69) are as follows:

	Scheme	Date of Grant	Earliest Exercise Date	Expiry Date	Exercise Price £	Number at 1 April 2016	Exercised in year	**Number at 31 March 2017**
S G M Caffyn	ShareSave	08/08/2013	01/09/2016	28/02/17	3.12	2,261	(2,261)	**–**
S J Caffyn	ShareSave	08/08/2013	01/09/2016	28/02/17	3.12	2,261	(2,261)	**–**

Performance graph and table

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

Total shareholder return – 31 March 2009 to 31 March 2017



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

	Chief Executive : S G M Caffyn					
Years ended 31 March	2012	2013	2014	2015	2016	**2017**
Total single figure £000	268	280	534	389	410	**388**
Annual bonus % of maximum opportunity	Nil	5.0%	100.0%	38.9%	42.7%	**30.5%**

Change in remuneration of Chief Executive

The following sets out the change in the Chief Executive's salary, benefits and bonus between 31 March 2016 and 31 March 2017 compared with the average percentage change in each of those components for other employees.

	Increase in base salary	Increase in benefits	Decrease in bonus
Chief Executive	2%	0%	(28.8)%
Departmental managers and above	2%	0%	(27.8)%

The comparator group comprising departmental managers and above has been selected on the basis that these managers also have direct operational management responsibilities.

Relative importance of spend on pay

The table below sets out the total spend on pay in two years to 31 March 2017 compared with other disbursements from profit (i.e. the distributions to shareholders). These were the most significant outgoings for the Company in the last financial year.

	Spend in 2017 £'000	Spend in 2016 £'000	Increase %
Spend on staff pay (including directors)	**13,075**	12,455	5.0%
Profit distributed by way of dividend	**603**	573	5.2%

The spend on staff pay shown above has been adjusted to exclude those amounts in respect of the Land Rover business that was sold in April 2016 to give an appropriate comparison.

If the proposed final dividend for the year ended 31 March 2017 is approved at the forthcoming Annual General Meeting, the total dividend payable in respect of the year to 31 March 2017 will be £606,000 (2016: £601,000), an increase of 0.8%.

Implementation of remuneration policy 2017/18

The annual salaries and fees to be paid to directors in 2017/18 are set out in the table below, together with any increases expressed as a percentage.

	2018 salary/fees £000	2017 salary/fees £000	Increase/ (decrease) %
S G M Caffyn	**278**	273	2%
M Warren	**143**	140	2%
S J Caffyn	**45**	44	2%
R C Wright	**64**	63	2%
N W Hollingworth	**29**	28	2%
N T Gourlay	**29**	28	2%

The basis for determining annual bonus payments for the 2018 financial year is set out in the future policy table in the directors' remuneration report on page 24. The profit targets are considered commercially sensitive because of the information that it provides to the Company's competitors and consequently these will only be disclosed after the end of the financial year, in the 2018 annual report of remuneration.

Directors' Remuneration Report

Consideration by the directors of matters relating to directors' remuneration

The Committee

The Committee is responsible for reviewing and recommending the framework and policy for remuneration of the Executive Directors and of senior management. The Committee's terms of reference are available on the Company's website. The members of the Committee during the financial year were Mr N W Hollingworth (Chairman), Mr R C Wright and Mr N T Gourlay. Mr N W Hollingworth was independent until the expiry of his nine-year period of service in January 2017. Mr N T Gourlay was an independent non-executive director throughout the year. The Committee met three times during the year and all members were present.

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

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

Summary of activity during the year ended 31 March 2017

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

- reviewing the basic salaries of the executive directors;
- reviewing the basic salary of the Chairman;
- setting annual performance targets in line with the Company's plan for the 2017 financial year and determining the amounts that may potentially be payable.

Statement of voting at 2016 Annual General Meeting

At the last annual general meeting, votes on the Directors' Remuneration Report were cast as follows:

Votes for	%	Votes Against	%	Abstentions	%
2,833,813	96.46	104,000	3.54	0	0.00

A shareholder vote on the directors' remuneration policy is required at least every third year and was last voted on at the 2014 Annual General Meeting. Votes at that meeting on the Directors' Remuneration policy were cast as follows:

Votes for	%	Votes Against	%	Abstentions	%
2,728,611	87.99	368,865	11.89	3,700	0.12

By Order of the Board

N W Hollingworth
Chairman of the Remuneration Committee
25 May 2017

Report of the Directors

The directors present their report and financial statements for the year ended 31 March 2017.

Results and dividends

The results of the Company for the year are set out in the financial statements on pages 44 to 48. An interim dividend of 7.50p per share was paid to shareholders on 6 January 2017. The Board is recommending a final dividend of 15.0 pence per share (2016: 14.5 pence) making a total of 22.50 pence per share (2016: 21.75 pence). Total ordinary dividends paid in the year amounted to £603,000. Dividends paid in the year to preference shareholders were £73,000 (2016: £87,000) as set out in note 10 to the financial statements.

Future developments of the Company are set out in the Operational and Business Review on pages 2 to 5.

Financial risk management

Consideration of principal risks and uncertainties is included on pages 6 to 8 of the Strategic Report including the management of financial risks. These are also outlined further in note 18.

Directors

The directors in office at 31 March 2017 are set out below:

Mr R C Wright PG Dip FIMI FCIM was appointed Chairman on 26 July 2012. He joined the Board as a non-executive director and Chairman-elect on 1 November 2011. He is also non-executive chairman of TFC Europe Ltd. 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 and was Chairman of API Group plc from 2001 until 31 October 2014 and sat on the advisory board of Warwick Business School, University of Warwick, for several years from 2002 onwards. He is the former Chair of the Board of National Savings and Investments, which is part of HM Treasury.

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

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

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 Warren BSc ACA was appointed to the Board on 31 May 2016 and assumed the role of Finance Director upon the retirement of Mark Harrison with effect from 31 July 2016. He is a Chartered Accountant who previously spent more than 21 years with H.R. Owen Plc, the motor dealership operator, of which the eight years until April 2015 were as Finance Director. He graduated from Southampton in 1986 having read civil engineering, and subsequently worked for PricewaterhouseCoopers.

Miss S J Caffyn BSc FCIPD AICSA FIMI has over 25 years' Human Resource experience across a number of different sectors. She joined the Board on 28 April 2003 as Human Resources Director, having previously been Group Personnel Manager and Company Secretary. A Chartered Company Secretary, she has governance experience in a number of not-for-profit organisations.

Report of the Directors

Interests in shares

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

	As at 31 March 2017			As at 31 March 2016		
	Ord	11% Pref	7% Pref	Ord	11% Pref	7% Pref
R C Wright	**5,312**	**–**	**–**	5,312	–	–
S G M Caffyn	**51,988**	**1,600**	**200**	49,727	1,600	200
M Warren	**5,000**	**–**	**–**	–	–	–
S J Caffyn	**39,232**	**1,655**	**–**	36,971	1,655	–
N W Hollingworth	**2,500**	**–**	**–**	2,500	–	–
N T Gourlay	**3,000**	**–**	**–**	3,000	–	–

Mr M S Harrison had an interest in 9,466 ordinary shares of the Company at 31 March 2016 and at the date of his retirement on 31 July 2016. 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 the 2,000,000 6% Cumulative Second Preference Shares which have full voting rights except in relation to matters which under the Listing Rules (as amended from time to time) are required to be voted on only by Premium listed securities (being the Ordinary shares).

The market price of the Company's Ordinary Shares at 31 March 2017 was £5.05 and the range of market prices during the year was £6.04 to £4.91.

Appointment and replacement of the Company's directors

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

Directors' indemnity and insurance

The Company's Articles of Association permit the Board to grant the directors indemnities in relation to their duties as directors in respect of liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the 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. Miss S J Caffyn is entitled to receive from the Company a sum equivalent to her annual emoluments which applied immediately before her termination and Mr M Warren is entitled to receive from the Company a sum equivalent to six months' emoluments which applied immediately before his termination. Emoluments include a proportion of the available bonus which the expired part of the measured period for bonus bears to the whole of such measurement period. If there is change in control of either the composition of the Board, the policy of the Company in General Meeting or 30% or more of the issued equity capital of the Company, Mr S G M Caffyn is entitled to elect for an early retirement pension which shall not be reduced due to early payment but is limited by restrictions which may be imposed by HM Revenue & Customs. The executive directors' service contracts commenced from the date of their appointment to the Board.

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

Employees

Employees are encouraged to discuss with management any matters which they are concerned about and factors affecting the Company. In addition, the Board takes account of employees' interests when making decisions. Suggestions from employees aimed at improving the Company's performance are welcomed. The Company has an HR Director, Miss S J Caffyn. Further information on employees is set out in the Strategic Report on page 9.

Share capital

As at 31 March 2017, the issued share capital of the Company comprised Ordinary Shares of 50p each and three classes of preference share namely 7.0% Cumulative First Preference Shares of £1 each, 11% 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 23 to the accounts. The rights and obligations attaching to the Company's shares are set out below and in the Company's Articles of Association, copies of which can be obtained from Companies House or by writing to the Company Secretary.

Rights and obligations attaching to shares

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

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

Holders of Cumulative First Preference Shares are entitled in priority to any payment of dividend on any other class of shares, to a fixed cumulative preferential dividend at the rate of 7.0% 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 11% 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 11% per annum. The percentage of the total share capital represented by each class as at 31 March 2017 was as follows:

Authorised	**£'000**	**%**
500,000 7% Cumulative First Preference Shares of £1 each	500	12.35
1,250,000 11% Cumulative Preference Shares of £1 each	1,250	30.86
3,000,000 6% Cumulative Second Preference Shares of 10p each	300	7.41
4,000,000 Ordinary Shares of 50p each	2,000	49.38
	4,050	100.00
Allotted, called up and fully paid		
170,732 7% Cumulative First Preference Shares of £1 each	171	7.58
441,401 11% Cumulative Preference Shares of £1 each	441	19.60
2,000,000 6% Cumulative Second Preference Shares of 10p each	200	8.88
Total preference shares recognised as a financial liability	812	36.06
2,879,298 Ordinary Shares of 50p each	1,439	63.94
	2,251	100.00

Report of the Directors

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

Shareholders (other than any who, under the provisions of the Articles of Association or the terms of the shares they hold, are not entitled to receive such notices from the Company) have the right to receive notice of, and attend, and to vote at all general meetings of the Company. The Company's auditor has similar rights except that they may not vote. A resolution put to the vote at any general meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is properly demanded.

Every member present in person at a general meeting has, on the calling of a poll, one vote for every Ordinary Share of 50p nominal amount of share capital of which he is the holder and one vote for every 7% Cumulative Second Preference Share of 10p nominal amount of share capital of which he is the holder. In the case of joint holders of a share, the vote of the member whose name stands first in the register of members is accepted to the exclusion of any vote tendered by any other joint holder. Unless the Board decides otherwise, a shareholder may not vote at any general or class meeting or exercise any rights in relation to meetings while any amount of money relating to his shares remains outstanding.

A member is entitled to appoint a proxy to exercise all or any of their rights to attend and speak and vote on their behalf at a general meeting. Further details regarding voting at the Annual General Meeting can be found in the notes to the Notice of the Annual General Meeting. To be effective, paper proxy appointments and voting instructions must be received by the Company's registrars no later than 48 hours before a general meeting.

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

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

Sharesave scheme

The Company encourages employee share ownership through the provision of periodic Save As You Earn schemes, administered by the Yorkshire Building Society. The last such scheme was launched in March 2013 with applications received from 122 employees. Share options for 124,445 Ordinary Shares were granted under the scheme in August 2013 and became exercisable upon expiry of the three-year savings contract at a pre-determined price of £3.12 per share. The scheme matured in August 2016 and 99,382 shares were exercised. The Company anticipates commencing a new Save As You Earn scheme in the coming 2017 financial year.

Significant direct or indirect shareholdings

At 25 May 2017, 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	%
GAM Exempt UK Opportunities Fund	173,267	6.43
HSBC Republic Bank Suisse SA	128,349	4.76
Caffyns Pension Fund	125,570	4.66
A M Caffyn	108,336	4.02
A E F Caffyn (deceased)	107,409	3.98
K E Caffyn	104,804	3.89
M I Caffyn	103,495	3.84

Greenhouse gas emissions

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

Business at the Annual General Meeting

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

Property

The Company last valued its portfolio of freehold premises as at 31 March 2017. The valuation was carried out by CBRE Limited, Chartered Surveyors, based on existing use value. The excess of the valuation over net book value as at 31 March 2017 was £10.1 million. In accordance with the Company's accounting policies, this surplus has not been incorporated into the accounts.

Auditor

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

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

By order of the Board

S J Caffyn
Company Secretary
25 May 2017

Directors' Responsibilities

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Annual Report, the Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements of Caffyns Plc and its subsidiaries ("the Group") and have elected to prepare the parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

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

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

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

To the best of our knowledge:

— the Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

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

Approved by order of the Board

S G M Caffyn
Chief Executive
25 May 2017

M Warren
Finance Director

Report of the Independent Auditor

Independent auditor's report to the members of Caffyns Plc

Our opinion on the financial statements is unmodified

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 2017 and of the Group's and the Parent Company's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- 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.

Who we are reporting to

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.

What we have audited

Caffyns Plc's financial statements for the year ended 31 March 2017 comprise the Group and Parent Company Income Statements, the Group and Parent Company Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statement, the Principal Accounting Policies and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Overview of our audit approach

- Overall Group materiality: £150,000;
- We performed full scope audit procedures at the operating Company Caffyns Plc and the three dormant subsidiary undertakings; and
- Key audit risks were identified as:
  - Revenue recognition and cut off;
  - Inventory, vehicles and parts;
  - Impairment of property;
  - Defined benefit pension scheme; and
  - Discontinued operations.

Report of the Independent Auditor

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Audit risk	How we responded to the risk
Revenue recognition and cut off Under ISA (UK and Ireland) (ISA) 240 'The auditor's responsibilities relating to fraud in an audit of financial statements', there is a presumed risk that revenue may be misstated because management could be under pressure to achieve planned levels of sales at the year end. We therefore identified revenue recognition and cut off as a significant risk requiring special audit consideration.	Our audit work included, but was not restricted to: • an assessment of whether the Group's revenue recognition policies in place complied with International Accounting Standard (IAS) 18 'Revenue' and ensuring its consistent application; • testing a sample of revenue transactions, covering both vehicle and non-vehicle sales, to determine whether the sale had been recorded in the correct period. This included verification to source documentation pertaining to the validity and date of the sale. Notably in respect of vehicle sales, we verified that the vehicle had left the Group's premises prior to revenue being recognised as this is when the risks and rewards of ownership transfer to the customer; • performing analytical procedures and identifying trends that did not meet our expectations; • agreeing manufacturer income directly to manufacturer statements and subsequent receipts; and • testing a sample of manual journal entries to identify unusual or irregular items. The Group's accounting policy on revenue recognition is shown in the Principal Accounting Policies and related disclosures are included in note 1.
Inventory, vehicles and parts The Group has inventory of £29.9m of which £29.0m relates to vehicle inventory. This inventory is valued at the lower of cost and net realisable value, being the estimated selling price less costs to sell. Management assess the fair value of vehicle inventories using industry valuation data, which is based upon recent industry activity and forecasts. Along with the inventory valuation method described above in relation to net valuation, we also identified the existence of inventory quantities, with special focus on vehicle inventory quantities, as a key risk. We also considered the gross valuation of parts inventories as a key risk.	Our audit work included, but was not restricted to: • an assessment of whether the Group's accounting policies for the valuation of inventories complied with International Accounting Standard (IAS) 2 'Inventories' and ensuring its consistent application; • a review and challenge of management's year end inventory valuation which included comparing the value of used vehicles against industry accepted valuation methodology and also a selection of new and used vehicles to post year end sales; • attendance at the inventory count at the year end, covering five of the eleven branches (in line with a rotational stock take attendance schedule established during previous audits). We performed 100% testing of the vehicles held at the selected sites. We also sample tested the parts stock held at the sites visited; and • testing a sample of the vehicles held at the six sites where we did not attend an inventory count, to verify the existence of the vehicles at the year end by agreeing the items selected to supporting documentation. The Group's accounting policy on inventory is shown in the Principal Accounting Policies and related disclosures are included in note 15. The Audit Committee identified inventory valuation as a significant issue in its report on page 15, where the Committee also described the action that it has taken to address this issue.

Audit risk	How we responded to the risk
Impairment of property	
As at 31 March 2017 the carrying amount of the net assets of the Group was more than its market capitalisation. Under IAS 36 'Impairment of Assets' the above represents an indication that an asset may be impaired. Therefore, the directors are required to determine whether the value of Group's assets, which predominantly relates to the Group's property, is impaired. To determine a fair value the directors obtained a third party valuation of the Group's freehold premises and where necessary, performed a value in use calculation. Forecast cash flows are produced for cash generating units (CGUs), the directors determine an appropriate discount rate and other assumptions are applied. The assumptions can be highly judgemental and can impact the impairment review. We have identified impairment of property as a significant risk requiring special audit consideration.	Our audit work included, but was not restricted to: • an assessment of whether the Group's accounting policies for the review for impairment of assets complied with International Accounting Standard (IAS) 36 'Impairment of Assets' and ensuring its consistent application; • obtaining management's assessment of relevant CGUs used in the impairment calculation and comparing those to our understanding of the business units and operating structure of the Group. We performed arithmetic checks to management's model to ensure their accuracy; • agreeing property valuations used for the purposes of impairment valuation reports obtained by the Group and verifying the expertise of the third party used; • challenging managements assumptions on growth rates, discount rates and terminal values used in the impairment calculations; and • reviewing the accuracy of managements forecasts through a comparison of budget to actual data. The Group's accounting policy on the impairment of property is shown in the Principal Accounting Policies and related disclosures are included in note 12. The Audit Committee identified the review of poorly performing dealerships as a significant issue in its report on page 15 where the Committee also described the action that it has taken to address this issue.
Defined benefit pension scheme	
The Group has a significant pension deficit on the balance sheet of £8.6m. The pension scheme is accounted for under IAS 19 'Employee Benefits'. The process to measure the amount of the pension liability, including the appropriate timing of recognition involves significant judgement as the valuation is subject to complex actuarial assumptions. We have identified the defined benefit pension scheme as a significant risk requiring special audit consideration.	Our audit work included, but was not restricted to: • an assessment of whether the Group's accounting policies for the defined benefit pension scheme complied with International Accounting Standard (IAS) 19 'Employee Benefits' and ensuring its consistent application; • challenging the appropriateness of the actuarial valuation methodologies and their inherent assumptions such as market data, discount rates, growth rates and mortality rates by use of our internal experts; and • evaluating the appropriateness of underlying data sent to the external actuary and agreeing asset values to investment manager statements. The Group's accounting policy on the defined benefit pension scheme is shown in the Principal Accounting Policies and related disclosures are included in note 21. The Audit Committee identified pensions as a significant issue in its report on page 15 where the Committee also described the action that it has taken to address this issue.

Report of the Independent Auditor

Audit risk	How we responded to the risk
Discontinued operations In April 2016, the Group disposed of its interest in the Land Rover Lewes operation, generating on disposal of £3.9m. Consequently, the presentation of the operating results of the Land Rover operation prior to disposal has been adjusted on the face of the Income Statement so as to show the operating results together with the gain on disposal as a single line item in accordance with IFRS 5. Similarly, the operating results of the discontinued operations for the prior year ended 31 March 2016 have also been adjusted on the face of the Income Statement so as to include all prior year results attributable to the discontinued operation within a single line item. We note that the Group retained its interest in the freehold property of the site in Lewes, and entered a lease agreement with Harwoods for the use of the site. The Directors are considering a sale of the freehold properties in the future, but had not committed to a plan of disposal by 31 March 2017 and have note therefore treated the freehold properties as held for sale in accordance with IFRS 5. We considered discontinued operations to be a key audit risk given the materiality of the gain on disposal, and also given the fundamental changes to the presentation of the income statement as required by IFRS 5. We believe that the users of the financial statements will pay particular attention to the discontinued operations disclosures in the financial statements in making an assessment of the Group's future prospects, which was another reason we considered this area to be a key audit risk. We have therefore identified discontinued operations as a significant risk requiring special audit consideration.	Our audit work included, but was not restricted to: • an assessment of whether the Group's accounting policies for discontinued operations complied with International Financial Reporting Standard (IFRS) 5 'Non-current Assets Held for sale and Discontinued Operations' and ensuring its consistent application; • reviewing the calculation of the gain on disposal and associated disclosures, including verification of the disposal proceeds and the carrying amount of the disposed assets; • considering the presentational restatement adjustments in respect of the comparative prior year's income statement; • verifying that the results of the discontinued operation prior to disposal in the current year agreed to the underlying accounting records which we tested as part of our other audit procedures; and • considering whether the interest in the freehold property met the criteria for classification as held for sale in accordance with IFRS 5, and confirming that the properties have properly been accounted for as investment property following the disposal of the trading operations. The Group's accounting policy on discontinued operations is shown in the Principal Accounting Policies and related disclosures are included in note 8.

Our application of materiality and an overview of the scope of our audit

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the Group financial statements as a whole to be £150,000. Our determination of materiality was based on consideration of a number of benchmarks which we believe to be of importance to the users of the financial statements, most notably the underlying profit before tax. This benchmark is considered particularly important due to the significant level of user focus on this figure in assessing the Group's future prospects, and in assessing the controllable aspects of the Group's performance during the year. The level of materiality was not determined by the application of a specific measurement percentage to any single particular benchmark we considered; rather the appropriate amount of materiality was determined to be £150,000 based on a review of the financial statements, and this amount was evaluated for appropriateness by reference to a range of key benchmarks.

Materiality for the current year is higher than the level that we determined for the year ended 31 March 2016 (£143,000), which is reflective of the growth in the Group's underlying profit before tax.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the Group financial statements. We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the Audit Committee to be £7,500. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

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

We conducted our audit in accordance with ISAs (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

The Group is made up of one operating Company, Caffyns Plc, and three dormant subsidiary undertakings ('the Group'). Our audit approach was based on a thorough understanding of the Group's business and is risk based, and in particular included:

- undertaking an interim visit in March 2017 to evaluate the Group's internal control environment, including IT systems and controls;
- at this visit, we performed an evaluation of the design effectiveness of controls over key financial statement risks identified as part of our audit risk assessment, reviewed the work undertaken by the internal audit function on controls relevant to our risk assessment, reviewed the accounts production process, addressed critical accounting matters and performed certain transactional procedures for the first nine months of the year in advance of the year end;
- at the final audit visit, we undertook substantive testing on significant transactions, balances, and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks; and
- the scope of the current year audit has remained consistent with the scope of that of the prior year and we performed full scope procedures at the operating Company Caffyns Plc and the three dormant subsidiary undertakings

Report of the Independent Auditor

Other reporting required by regulations

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Report of the Directors; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

Matters on which we are required to report by exception

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

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

Under the Listing Rules, we are required to review:

- the directors' statements in relation to going concern and longer-term viability, set out on page 16; and
- the part of the Statement on Corporate Governance relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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

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

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable; or
- the annual report does not appropriately disclose those matters that were communicated to the audit committee which we consider should have been disclosed.

We have nothing to report in respect of any of the above matters.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Responsibilities for the financial statements and the audit

What the directors are responsible for:

As explained more fully in the Directors' Responsibilities Statement set out on page 36, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Christian Heeger BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Crawley
25 May 2017

Income Statement
for the year ended 31 March 2017

Group and Company

	Note	2017 £'000	Restated 2016 £'000
Continuing operations:			
Revenue	1	212,581	186,401
Cost of sales		(187,971)	(164,057)
Gross profit		24,610	22,344
Operating expenses			
Distribution costs		(15,014)	(13,088)
Administration expenses		(7,386)	(7,102)
Operating profit before other income		2,210	2,154
Other income (net)		541	341
Operating profit		2,751	2,495
Operating profit before non-underlying items		2,981	2,544
Non-underlying items within operating profit	2	(230)	(49)
Operating profit	3	2,751	2,495
Finance expense	5	(930)	(1,079)
Finance expense on pension scheme	6	(162)	(173)
Net finance expense		(1,092)	(1,252)
Profit before taxation		1,659	1,243
Profit before tax and non-underlying items		2,051	1,465
Non-underlying items within operating profit	2	(230)	(49)
Non-underlying items within finance expense on pension scheme	2	(162)	(173)
Profit before taxation		1,659	1,243
Taxation	7	(375)	(70)
Profit for the year from continuing operations		1,284	1,173
Profit for the year from discontinued operations	8	3,839	1,314
Profit for the year		5,123	2,487
Earnings per share			
Basic	9	186.3p	90.1p
Diluted	9	186.3p	88.7p
Earnings per share for continuing operations			
Basic	9	58.0p	48.8p
Diluted	9	58.0p	48.0p

See accompanying notes to the financial statements.

Statement of Comprehensive Income

for the year ended 31 March 2017

Group and Company

	Note	2017 £'000	2016 £'000
Profit for the year		**5,123**	2,487
Items that will never be reclassified to profit and loss:			
Remeasurement of net defined benefit liability	21	**(3,725)**	296
Deferred tax on remeasurement	22	**633**	(59)
Total other comprehensive income, net of taxation		**(3,092)**	237
Total comprehensive income for the year		**2,031**	2,724

See accompanying notes to the financial statements.

Statements of Financial Position

at 31 March 2017

	Note	Group 2017 £'000	Group 2016 £'000	Company 2017 £'000	Company 2016 £'000
Non-current assets					
Property, plant and equipment	12	**35,623**	38,218	**35,623**	38,218
Investment property	13	**6,986**	1,167	**6,986**	1,167
Goodwill	11	**286**	286	**286**	286
Investment in subsidiary undertakings	14	**–**	–	**250**	250
		42,895	39,671	**43,145**	39,921
Current assets					
Inventories	15	**29,904**	32,925	**29,904**	32,925
Trade and other receivables	16	**7,838**	8,449	**7,838**	8,449
Cash and cash equivalents		**2,321**	219	**2,321**	219
		40,063	41,593	**40,063**	41,593
Total assets		**82,958**	81,264	**83,208**	81,514
Current liabilities					
Interest bearing loans and borrowings	17	**500**	500	**500**	500
Trade and other payables	19	**34,179**	36,368	**34,429**	36,618
Current tax payable		**197**	416	**197**	416
		34,876	37,284	**35,126**	37,534
Net current assets		**5,187**	4,309	**4,937**	4,059
Non-current liabilities					
Interest bearing loans and borrowings	17	**10,375**	10,875	**10,375**	10,875
Preference shares	23	**812**	812	**812**	812
Deferred tax liability	22	**805**	617	**805**	617
Retirement benefit obligations	21	**8,554**	4,980	**8,554**	4,980
		20,546	17,284	**20,546**	17,284
Total liabilities		**55,422**	54,568	**55,672**	54,818
Net assets		**27,536**	26,696	**27,536**	26,696
Capital and reserves					
Share capital	23	**1,439**	1,439	**1,439**	1,439
Share premium account		**272**	272	**272**	272
Capital redemption reserve		**707**	707	**707**	707
Non-distributable reserve		**1,724**	1,724	**1,724**	1,724
Other reserve		**–**	132	**–**	132
Retained earnings		**23,394**	22,422	**23,394**	22,422
Total equity attributable to shareholders of Caffyns plc		**27,536**	26,696	**27,536**	26,696

The financial statements were approved by the board of directors and authorised for issue on 25 May 2017 and were signed on its behalf by:

R C Wright
Chairman
25 May 2017

M Warren
Director

See accompanying notes to the financial statements.

Company number: 105664

Statement of Changes in Equity

for the year ended 31 March 2017

	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 2016	1,439	272	707	1,724	132	22,422	26,696
Total comprehensive income							
Profit for the year	–	–	–	–	–	5,123	5,123
Other comprehensive income	–	–	–	–	–	(3,092)	(3,092)
Total comprehensive income for the year	–	–	–	–	–	2,031	2,031
Transactions with owners:							
Dividends	–	–	–	–	–	(603)	(603)
Purchase of own shares for treasury	–	–	–	–	–	(919)	(919)
Issue of shares – SAYE scheme	–	–	–	–	–	310	310
Share-based payment	–	–	–	–	21	–	21
Transfer – SAYE scheme	–	–	–	–	(153)	153	–
At 31 March 2017	**1,439**	**272**	**707**	**1,724**	**–**	**23,394**	**27,536**

for the year ended 31 March 2016

	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 2015	1,439	272	282	1,724	81	20,696	24,494
Total comprehensive income							
Profit for the year	–	–	–	–	–	2,487	2,487
Other comprehensive income	–	–	–	–	–	237	237
Total comprehensive income for the year	–	–	–	–	–	2,724	2,724
Transactions with owners:							
Dividends	–	–	–	–	–	(573)	(573)
Preference shares bought back	–	–	425	–	–	(425)	–
Share-based payment	–	–	–	–	51	–	51
At 31 March 2016	**1,439**	**272**	**707**	**1,724**	**132**	**22,422**	**26,696**

Cash Flow Statement

for the year ended 31 March 2017

Group and Company

	Note	2017 £'000	2016 £'000
Net cash inflow from operating activities	24	**1,743**	1,352
Investing activities			
Proceeds on disposal of property, plant and equipment		**–**	2,736
Proceeds generated on sale of Land Rover business, net of costs	8	**6,707**	–
Purchases of property, plant and equipment and investment property		**(4,636)**	(3,825)
Net cash inflow/(outflow) from investing activities		**2,071**	(1,089)
Financing activities			
Secured loans repaid		**(500)**	(500)
Purchase of own preference shares		**–**	(717)
Purchase of own shares for treasury		**(919)**	–
Issue of shares – SAYE scheme		**310**	–
Dividends paid		**(603)**	(573)
Net cash outflow from financing activities		**(1,712)**	(1,790)
Net increase/(decrease) in cash and cash equivalents		**2,102**	(1,527)
Cash and cash equivalents at beginning of year		**219**	1,746
Cash and cash equivalents at end of year		**2,321**	219

	2017 £'000	2016 £'000
Cash and cash equivalents	**2,321**	219

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. 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 29.

New and revised standards

The Group has not adopted any new standards or amendments that have a significant impact on the Group's results or financial position.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, certain new standards, and amendments IAS 8.31 to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below. Management anticipates that all relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

- IFRS 9 Financial instruments:
  The new standard for financial instruments (IFRS 9) introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

  IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.
- IFRS 15 Revenue from contracts with customers:
  IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

  IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.
- IFRS 16 Leases:
  IFRS 16 will replace IAS 17 and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability.

  IFRS 16 is effective from periods beginning on or after 1 January 2019.

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 meets its day to day working capital requirements through short-term stocking loans and bank overdraft and medium-term revolving credit facilities. At the year-end, the medium-term banking facilities included a revolving credit facility of up to £7.5 million, renewable in September 2018, and short-term overdraft facilities of £10.5 million which are renewed annually in August. The directors have every expectation that these facilities will be renewed based on its current discussions with its banks. The Company also has a 10-year term loan with a balance outstanding at 31 March 2017 of £3.375 million. In the opinion of the directors, there is a reasonable expectation that all facilities

Principal Accounting Policies

will be renewed. The overdraft and revolving credit facilities include certain covenant tests which were passed at 31 March 2017. 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 these financial statements. These forecasts indicate that the Company 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 Company's liquidity and financing risk are set out on page 7 and note 18 to the financial statements.

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

Basis of consolidation

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

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

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

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

Acquisitions

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

Goodwill

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

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

Revenue recognition

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

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

Bonuses receivable from manufacturers, which are principally based on meeting volume objectives, are recognised in the Income Statement when the relevant objectives have been satisfied.

Non-underlying items

Non-underlying items are those items that are unusual because of their size, nature or incidence. Management considers that these items should be disclosed separately to enable a full understanding of the operating results. Profits and losses on disposal of property, plant and equipment are also disclosed as non-underlying, as are certain redundancy costs and costs attributable to vacant properties held pending their disposal.

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

All other activities are treated as underlying.

Leasing

Lessee

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

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

Lessor

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

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

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

An interest expense or income is calculated on the defined benefit liability or asset respectively by applying the discount rate to the net defined benefit liability or asset.

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

Share-based employee compensation

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

All share-based compensation is ultimately recognised as an expense in the Income Statement 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 considered 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.

Principal Accounting Policies

Taxation

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

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

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

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

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

Property, plant and equipment

Land and buildings used in the business are stated in the Statement of Financial Position at cost, or deemed cost, being the open market value at 31 March 1995, for those properties acquired before that date.

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

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

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

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

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

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

The leasehold land is accounted for as an operating lease.

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

Investment property

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

Impairment

a. Impairment of goodwill

   Goodwill is tested annually for impairment. If an impairment provision is made, it cannot subsequently be reversed.

b. Impairment of property, plant and equipment

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows from other groups of assets. Management have determined that the CGUs are the individual dealerships for each 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 inventories includes service vehicles. Consignment vehicles are regarded as being effectively under the control of the Company and are included within inventories on the Statement of Financial Position as the Company has substantially all the significant risks and rewards of ownership even though legal title may not yet have passed. The corresponding liability is included in trade and other payables. Parts inventories, in accordance with normal industry practice, are valued based on replacement cost and are written down to net realisable value by providing for obsolescence on a time and inventory-based formula approach.

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

Trade and other receivables

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

Cash and cash equivalents

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

Investments in subsidiary undertakings

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

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.

Principal Accounting Policies

In the case of a debt renegotiation where the existing and new terms are substantially different, the exchange shall be accounted for as an extinguishment of the original financing liability and the fair value of the new financial liability is recognised in profit or loss. Any costs or fees incurred in the refinancing are recognised as part of the gain or loss on extinguishment. If an exchange is not accounted for as an extinguishment, any fees or costs incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Trade and other payables

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

Manufacturer funding facilities are utilised up to a maximum of the lower of the total value of used car inventory and the facility limit. The utilisation is recorded at fair value with associated interest charged to the Income Statement.

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. This includes the repurchased Preference Shares in February 2016.

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

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

Retained earnings includes all current and prior period retained profits.

Where any company in the Group 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 Company 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.

Discontinued operations

A discontinued operation is a component of the Company that represents a major line of business operations that has been disposed of, has been abandoned or meets the criteria to be classified as held for sale in accordance with IFRS 5.

Discontinued operations are presented on the income statement as a separate line and are shown net of tax.

Notes to the Financial Statements

for the year ended 31 March 2017

1. General information

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

	2017 £'000	Restated 2016 £'000
Sale of goods	**204,108**	179,144
Rendering of services	**8,473**	7,257
	212,581	186,401

Based upon the management information reported to the chief operating decision maker, the Chief Executive, in the opinion of the directors, the Company only has the one reportable segment. The Company 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 revenue. All revenue and non-current assets derive from, or are based in, the United Kingdom.

2. Non-underlying items

	2017 £'000	2016 £'000
Net (loss)/profit on disposal of property, plant and equipment	**(1)**	317
Other income (net)	**(1)**	317
Within operating expenses:		
Service cost on pension scheme	**(37)**	(42)
Redundancy costs	**(43)**	(32)
Dilapidation provision	**(149)**	–
Preference share premium paid on redemption	**–**	(156)
Preference share redemption costs	**–**	(136)
	(229)	(366)
Non-underlying items within operating profit	**(230)**	(49)
Net finance expense on pension scheme	**(162)**	(173)
Non-underlying items within net finance income	**(162)**	(173)
Total non-underlying items before taxation	**(392)**	(222)
Taxation credit on non-underlying items	**80**	49
Total after tax	**(312)**	(173)

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

There were branch specific redundancy costs of £43,000 (2016: £32,000).

The Company is due to exercise a break clause of its lease for a site in Tonbridge in June 2017. A provision for remedial work on the property and professional fees associated with the break have been estimated at £149,000.

In the prior year, the Company sold most of its freehold property in Upperton Road, Eastbourne for £1,581,000 and land in Goring Road, Worthing for £360,000 generating net gains of £281,000 and £71,000 respectively. Other losses on disposal totalled £35,000.

On 8 February 2016, the Company purchased 218,268 First Preference Shares for 108 pence each and 206,664 New Preference Shares for 167 pence each pursuant to a Redemption Option offered to shareholders. Given the nature of the transaction, the associated legal and professional costs of this purchase have been treated as non-underlying together with the premium paid on redemption.

Notes to the Financial Statements

3. Operating profit

Operating profit has been arrived at after charging/(crediting):	2017 £'000	2016 £'000
Employee benefit expense (see note 4)	**14,951**	15,723
Rental income	**(542)**	(24)
Depreciation of property, plant, equipment and investment property		
– owned assets	**1,196**	1,148
Net loss/(profit) on disposal of property, plant and equipment including assets held for sale	**1**	(317)
Operating lease rentals payable		
– land and buildings	**522**	516
– plant and machinery	**–**	4
Operating lease rentals receivable		
– land and buildings	**(777)**	(264)

Operating profit has been arrived at after charging:	2017 £'000	2016 £'000
Auditor's remuneration		
– Fees payable to the Company's auditor for the audit of the Company's annual accounts		
– Fees payable to the Company's auditor and its associates for other services:	**74**	71
– Other services pursuant to legislation – Interim review	**12**	11
– Tax services	**13**	26
– Fees in respect of the audit of the Caffyns plc Pension Scheme	**10**	9
– Other services	**73**	3
	182	120

Tax services provided in the year included £11,500 of compliance (2016: £10,000) and £1,500 of VAT advice (2016: £16,000).

In March 2016, the Company's auditor provided other assurance services of £65,000 in relation to the disposal of the Land Rover business as set out in note 8. As the transaction did not complete until April 2016, this is included in the 2017 Financial Year under "Other services".

A description of the work of the Audit Committee is set out in the Chairman's Statement on Corporate Governance on pages 14 and 15 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor.

4. Employee benefit expense

The average number of people (full time equivalents) employed in the following areas was:

	2017 Number	2016 Number
Sales	**130**	129
Aftersales	**202**	219
Administration	**82**	84
	414	432

The number of full time equivalent employees at the Land Rover business, sold in April 2016, in the comparative period was 48 of which 15 operated in Sales, 30 in Aftersales and 3 in Administration.

4. Employee benefit expense (continued)

Employee benefit expense during the year including directors amounted to:	2017 £'000	2016 £'000
Wages and salaries	13,251	13,923
Social security costs	1,321	1,398
Redundancy costs	43	28
Contributions to defined contribution plans	137	159
Other pension costs (see note 21)	199	215
	14,951	15,723

Directors' emoluments were:	2017 £'000	2016 £'000
Salaries and short-term employee benefits	806	877
	806	877

Details of the directors' remuneration are provided in the Directors' Remuneration Report on pages 18 to 30.

5. Finance expense

	2017 £'000	Restated 2016 £'000
Interest payable on bank borrowings	190	292
Vehicle stocking plan interest	569	596
Financing costs amortised	99	104
Preference dividends (see note 10)	72	87
Finance expense	930	1,079

Interest payable on bank borrowings is after capitalising interest on additions to freehold properties of £45,000 at a rate of 2.3% (2016: £22,000, rate: 3.5%) (see note 12).

6. Finance expense on pension scheme

	2017 £'000	2016 £'000
Defined benefit pension scheme net finance expense (see note 21)	162	173

Notes to the Financial Statements

7. Tax

	2017 £'000	2016 £'000
Current tax		
UK corporation tax	(338)	(415)
Adjustments recognised in the period for current tax of prior periods	–	121
Total	(338)	(294)
Deferred tax (see note 22)		
Origination and reversal of temporary differences	(919)	(87)
Adjustments recognised in the period due to change in rate of corporation tax	98	184
Adjustments recognised in the period for deferred tax of prior periods	–	49
Total	(821)	146
Total tax charged in the Income Statement	(1,159)	(148)

The tax charge arises as follows:	2017 £'000	Restated 2016 £'000
On normal trading	(455)	(119)
On non-underlying items (see note 2)	80	49
On continuing operations	(375)	(70)
On discontinued operations (see note 8)	(784)	(78)
	(1,159)	(148)

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

	2017 £'000	2016 £'000
Profit before tax	6,282	2,635
Tax at the UK corporation tax rate of 20% (2016: 20%)	(1,256)	(527)
Tax effect of expenses that are not deductible in determining taxable profit	(63)	(23)
Accounting depreciation/impairment for which no tax relief is due	–	(107)
Difference between accounts profits and taxable profits on capital asset disposals	112	108
Other differences between accounts profits and taxable profits	(48)	–
Movement in rolled over and held over gains	(2)	47
Re-measurement of deferred tax due to change in rate of corporation tax	98	184
Adjustments to tax charge in respect of prior years	–	170
Tax charge for the year	(1,159)	(148)

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

	2017 £'000	2016 £'000
Total current tax charge	(338)	(294)
Deferred tax charge		
(Charged)/credited in Income Statement	(821)	146
Credited/(charged) against other comprehensive income	633	(59)
Total deferred tax (charge)/credit	(188)	87
Total tax charge for the year	(526)	(207)

7. Tax (continued)

Factors affecting the future tax charge

The Company has unrelieved advance corporation tax of approximately £1.14 million (2016: £1.14 million) which is available to be utilised against future mainstream corporation tax liabilities and is accounted for in deferred tax (see note 22).

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

8. Discontinued operations

In April 2016, the Company sold the business and assets (excluding the freehold property) of its Land Rover business to Harwoods Limited ("Harwoods"). Cash consideration of £7.5 million comprised £5.5 million for goodwill together with £0.2 million for property, plant and equipment and £1.9 million for inventories less £0.1 million in respect of liabilities transferred. The total consideration was received at completion on 29 April 2016. Ownership of the freehold property in Lewes from which Harwoods will continue to operate the Land Rover business remains with the Company, and is being leased to Harwoods for a period of up to three years from 29 April 2016 subject to a two-year tenant-only break clause.

As a result of this transaction, the operating activities attributed to that business, as set out below, have been disclosed as a discontinued operation.

	2017 £'000	2016 £'000
Revenue	5,828	46,089
Cost of sales	(5,516)	(41,169)
Gross profit	312	4,920
Operating expenses	(370)	(3,473)
Operating (loss)/profit	(58)	1,447
Finance expense	(3)	(55)
(Loss)/profit before taxation	(61)	1,392
Taxation credit/(expense)	12	(78)
(Loss)/profit attributed to discontinued operations	(49)	1,314
Profit on sale of business net of deferred tax	3,888	–
Profit for the period from discontinued operations	3,839	1,314

The results of the business shown above represent its trading from the start of the financial year under review until disposal on 29 April 2016. Depreciation charged in arriving at these results was £18,000 (2016: £101,000).

The carrying value of assets and liabilities on disposal are shown below.

	2017 £'000	2016 £'000
Proceeds generated on sale of business	7,512	–
Sale of property, plant and equipment	(218)	–
Transfer of inventories	(1,921)	–
Transfer of liabilities	116	–
	5,489	–
Associated transaction costs:		
Professional fees	(470)	–
Adjustments arising on completion	(230)	–
Provision for onerous costs	(105)	–
Net transaction costs	(805)	–
Net gain on sale of business	4,684	–
Deferred tax expense	(796)	–
Profit on sale of business net of deferred tax	3,888	–

Notes to the Financial Statements

9. 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	
		Restated		Restated
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
Profit before tax	**6,282**	2,635	**6,282**	2,635
Adjustments:				
Profit before tax relating to discontinued operations	**(4,623)**	(1,392)	**–**	–
Non-underlying items (note 2)	**392**	222	**–**	–
Adjusted profit before tax	**2,051**	1,465	**6,282**	2,635
Taxation	**(455)**	(119)	**(1,159)**	(148)
Earnings	**1,596**	1,346	**5,123**	2,487
Earnings per share	**58.0p**	48.8p	**186.3p**	90.1p
Diluted earnings per share	**58.0p**	48.0p	**186.3p**	88.7p

	2017	2016
	£'000	£'000
Continuing operations:		
Underlying earnings from continuing operations	**1,596**	1,346
Earnings per share	**58.0p**	48.8p
Diluted earnings per share	**58.0p**	48.0p
Non-underlying losses from continuing operations	**(312)**	(173)
Losses per share	**(11.3p)**	(6.3p)
Diluted losses per share	**(11.3p)**	(6.2p)
Total earnings from continuing operations	**1,284**	1,173
Earnings per share	**46.7p**	42.5p
Diluted earnings per share	**46.7p**	41.8p
Discontinued operations:		
Earnings from discontinued operations	**3,839**	1,314
Earnings per share	**139.6p**	47.6p
Diluted earnings per share	**139.6p**	46.9p

The number of fully paid ordinary shares in circulation at the year-end was 2,694,790 (2016: 2,763,071). The weighted average shares in issue for the purposes of the earnings per share calculation were 2,750,015 (2016: 2,759,371). The shares granted under the Company's SAYE scheme are dilutive. All outstanding shares under option at the start of the year were either exercised or became lapsed during the year. In the prior year, the weighted average number of dilutive shares under option at fair value was 45,703 giving a total diluted weighted average number of shares of 2,805,074.

10. Dividends

Paid

	2017 £'000	2016 £'000
Preference		
7% Cumulative First Preference*	12	18
11% Cumulative Preference*	48	57
6% Cumulative Second Preference	12	12
Included in finance expense (see note 5)	72	87
Ordinary		
Interim dividend paid in respect of the current year of 7.5p (2016: 7.25p)	202	200
Final dividend paid in respect of the March 2016 year end of 14.5p (2015: 13.5p)	401	373
	603	573

Proposed

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2017 of 15.0 pence per share which will absorb £404,000 of shareholders' funds (2016: 14.5 pence per share absorbing £401,000). 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.

*Redemption of preference shares and change to coupon rate

On 8 February 2016, the Company repurchased 218,268 6.5% Cumulative First Preference shares and 206,664 10% Cumulative Preference shares. The voting rights attributable to the 10% Cumulative Preference shares have been removed and at the same time the coupon rates were raised from 6.5% to 7% and from 10% to 11% respectively.

11. Goodwill

Group and Company	2017 £'000	2016 £'000
Cost		
At 1 April 2016 and 31 March 2017	481	481
Provision for impairment		
At 1 April 2016 and 31 March 2017	195	195
Carrying amounts:		
Volkswagen, Brighton	200	200
Audi, Eastbourne	86	86
At 31 March 2017	286	286

For the purposes of the annual impairment testing, the directors recognise Cash-Generating Units ("CGUs") to be a single dealership. 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 the above note. The value in use is calculated using Board approved budgeted projections for the 2017/18 financial year. These projections take into account management estimates of future trading including past experience and industry expectations. They are extrapolated over an additional four years assuming no growth in profits and an estimate of each CGU's terminal value, discounted using a pre-tax discount rate of 12.4%. 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. The pre-tax discount rate of 12.4% applied in determining the value in use of the CGUs reflects the current market assessment of the time value of money and the risks specific to each CGU, which is estimated to be equivalent to the weighted average cost of capital to the Group.

The two key assumptions made by the Directors are the discount rate used and profitability rates beyond the business plan. Neither a 1% increase in the discount rate or a 10% reduction in operating profit would result in a material impairment being required.

Notes to the Financial Statements

12. Property, Plant and equipment

Group and Company	Freehold property £'000	Leasehold property £'000	Fixtures & fittings £'000	Plant & machinery £'000	Total £'000
Cost or deemed cost					
At 1 April 2015	38,470	690	4,796	5,205	49,161
Additions at cost	2,367	–	723	368	3,458
Transfer to Investment Property	(1,149)	–	–	–	(1,149)
Disposals	(1,148)	–	(653)	(172)	(1,973)
At 31 March 2016	38,540	690	4,866	5,401	49,497
Cost or deemed cost					
At 1 April 2016	38,540	690	4,866	5,401	49,497
Additions at cost	3,924	–	371	341	4,636
Transfer to Investment Property	(6,265)	–	–	–	(6,265)
Disposals	–	–	(437)	(434)	(871)
At 31 March 2017	**36,199**	**690**	**4,800**	**5,308**	**46,997**
Accumulated Depreciation					
At 1 April 2015	3,405	200	3,334	4,238	11,177
Charge for the year	475	61	385	227	1,148
Transfer to Investment Property	(150)	–	–	–	(150)
Disposals	(122)	–	(642)	(132)	(896)
At 31 March 2016	3,608	261	3,077	4,333	11,279
Accumulated Depreciation					
At 1 April 2016	3,608	261	3,077	4,333	11,279
Charge for the year	465	61	388	200	1,114
Transfer to Investment Property	(364)	–	–	–	(364)
Disposals	–	–	(316)	(339)	(655)
At 31 March 2017	**3,709**	**322**	**3,149**	**4,194**	**11,374**
Net book amount					
At 31 March 2017	**32,490**	**368**	**1,651**	**1,114**	**35,623**
At 31 March 2016	34,932	429	1,789	1,068	38,218
At 31 March 2015	35,065	490	1,462	967	37,984

Short-term leasehold property comprised £368,000 at net book value in the Statement of Financial Position (2016: £429,000) in both the Company and the Group.

Depreciation of £1,096,000 (2016: £1,038,000) in respect of property, plant and equipment is recognised within administration expenses within the Income Statement. The remaining depreciation charge of £18,000 (2016: £101,000) is recognised within the results attributed to discontinued operations (see note 8).

Additions to freehold property includes interest capitalised of £45,000 (2016: £22,000) (see note 5).

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 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.

12. Property, Plant and equipment (continued)

Freehold property is included as follows:

	Group and Company	
	2017	2016
	£'000	£'000
Valuation – March 1995, less depreciation	**3,317**	3,348
At cost, less depreciation	**29,173**	31,584
Deemed cost, less depreciation at the year end	**32,490**	34,932
At historic cost	**30,765**	33,208

The Company valued its portfolio of freehold premises as at 31 March 2017. The valuation was carried out by CBRE Limited, Chartered Surveyors, based on existing use value. The excess of the valuation over net book value as at 31 March 2017 of those sites valued was £10.1m. In accordance with the Company's accounting policies, this surplus has not been incorporated into the accounts.

Depreciation is being charged on the value of freehold buildings of £23,669,000 (2016: £23,195,000). The balance relates to freehold land, which is not depreciated.

13. Investment property

	2017	2016
Group & Company	**£'000**	£'000
Cost		
At 1 April	**1,167**	–
Transfer from Property, Plant and Equipment	**5,901**	999
Additions	**–**	367
Disposal	**–**	(199)
Charge for the year	**(82)**	–
At 31 March	**6,986**	1,167

14. Investments in subsidiary undertakings

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

	Company
	£'000
Cost	
At 31 March 2017 and at 31 March 2016	476
Provision	
At 31 March 2017 and at 31 March 2016	226
Net book amounts	
At 31 March 2017 and at 31 March 2016	**250**

Notes to the Financial Statements

15. Inventories

Group and Company	2017 £'000	2016 £'000
Vehicles	18,454	21,304
Vehicles on consignment	10,589	10,638
Oil, spare parts and materials	855	976
Work in progress	6	7
	29,904	32,925
Inventories recognised as an expense during the year	183,857	208,007
Inventories stated at fair value less costs to sell	781	894
Carrying value of inventories subject to retention of title clauses	18,954	20,779

All vehicle stocks held under consignment stocking agreements are deemed to be assets of the Group and are included on the Statement of Financial Position from the date 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 £37,000 was recognised in respect of the write down of vehicle parts inventories due to general obsolescence (2016: £32,000).

16. Trade and other receivables

Group and Company	2017 £'000	2016 £'000
Trade receivables	6,441	7,367
Allowance for doubtful debts	(5)	(5)
	6,436	7,362
Other receivables	1,402	1,087
	7,838	8,449

All amounts are due within one year.

The Company makes an impairment provision for all debts that are considered unlikely to be collected. At 31 March 2017 trade receivables are shown net of an allowance for impairment of £5,000 (2016: £5,000). The charge recognised during the year was £5,000 (2016: £5,000).

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

	2017 £'000	2016 £'000
Not impaired:		
Neither past due nor impaired	6,424	7,347
Past due up to 3 months but not impaired	12	15
	6,436	7,362

	2017 £'000	2016 £'000
The movement in the allowance for impairment during the year was:		
Balance at 1 April	5	3
Impairment recognised in Income Statement	5	5
Utilisation	(5)	(3)
Balance at 31 March	5	5

All amounts are due within one year.

16. 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 statement of financial position are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment. Consequently, the directors consider that the carrying amount of trade and other receivables approximates their fair value.

Before granting any new customer credit terms the Company 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 Company has no customer that represents more than 5% of the total balance of trade receivables.

17. Interest bearing loans and borrowings

Group and Company	2017 £'000	2016 £'000
Current liabilities		
Secured bank loans and overdrafts	**500**	500
Non-current liabilities		
Secured bank loans	**10,375**	10,875

Note 18 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 £21.375 million (2016: £21.875 million) are secured by a general debenture and fixed charges over certain freehold properties.

18. Financial instruments

The Group utilises financial instruments such as bank loans and overdrafts and new and used vehicle stocking loans 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		2017 Carrying value and fair value £'000	2016 Carrying value and fair value £'000
Fair value of financial assets and liabilities			
Primary financial instruments held or issued to finance the Group's operations:	Classification		
Long term borrowings (note 17)	Financial liability measured at amortised cost	**(10,375)**	(10,875)
Short-term borrowings (note 17)	Financial liability measured at amortised cost	**(500)**	(500)
Trade and other payables (note 19)	Financial liability measured at amortised cost	**(33,161)**	(35,353)
Trade and other receivables (note 16)	Loans and receivables	**7,838**	8,449
Cash and cash equivalents	Loans and receivables	**2,321**	219
Preference share capital (note 23)	Financial liability measured at amortised cost	**(812)**	(812)
The amounts noted in the above table are the same for the Company apart from:			
Trade and other payables (note 19)	Financial liability measured at amortised cost	**(33,411)**	(35,603)

Notes to the Financial Statements

18. Financial instruments (continued)

Financial risk management

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

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

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

Capital management

The Group views its financial capital resources as primarily comprising share capital, bank loans and overdrafts, vehicle stocking credit lines and operating cash flow.

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. The capital of the Group is £27,536,000 and comprises share capital, share premium, retained earnings and minor reserve accounts; the capital redemption reserve, the non-distributable reserve and the other reserve. In order to maintain or adjust the capital structure, the Group may adjust the level of dividends paid to holders of Ordinary Shares, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's net bank loans and overdrafts/equity ratio was 31% at 31 March 2017 (2016: 42%). Capital requirements imposed externally by the Group's bankers are that bank borrowings should not exceed 80% of the current value of the Group's freehold properties which are subject to a fixed charge. The underlying pre-tax return from continuing operations as a proportion of equity for the year was 7.4% (2016: 5.5%).

The Company has occasionally repurchased its own shares in the market and cancelled them to promote growth in earnings per share. There is no predetermined plan for doing this although the Company has permission from shareholders to buy back up to 15% of its equity at any one time. The Company may also purchase its own shares to satisfy share incentives issued to employees 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 risk 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 2017 the Group had undrawn floating rate borrowing facilities of £13.0 million (2016: £14.75 million) represented by overdrafts which would be repayable on demand, in respect of which all conditions precedent had been met. The Group is not exposed to foreign currency risk.

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 Group does not currently hedge any interest rate risk.

18. Financial instruments (continued)

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 £86,000 (2016: £112,000) 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 Statement of Financial Position.

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

Cash and cash equivalents

	Carrying value and fair value 2017 £'000	Carrying value and fair value 2016 £'000
Bank balances and cash equivalents	**2,321**	219

Borrowings and other financial liabilities

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 2017 is set out in the following table:

	Carrying value and fair value £'000	Classification	Interest classification	Interest rate range
Current: within one year or on demand				
Term loan	**500**	Amortised cost	Floating	FHBR* + 1.75%
Trade and other payables	**34,179**	Amortised cost	–	–

	Carrying value and fair value £'000	Classification	Interest classification	Interest rate range
Not repayable within one year				
Term loan	**2,875**	Amortised cost	Floating	FHBR* + 1.75%
Revolving credit facility	**7,500**	Amortised cost	Floating	LIBOR** + 1.80%
Preference share capital	**812**	Amortised cost	Fixed	7% to 11%

* Finance House Base Rate
** London Interbank Offered Rate

Notes to the Financial Statements

18. Financial instruments (continued)

The maturity of non-current borrowings is as follows:

	2017 £'000	2016 £'000
Between one and two years	1,000	1,000
Between two and five years	9,000	9,000
Over five years	1,187	1,687
	11,187	11,687

Maturities include amounts drawn under revolving credit facilities which can be drawn in whole or part at any time and will continue until September 2018. 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:

	2017 £'000	2016 £'000
Within 6 months	77	96
6-12 months	77	96
More than 12 months	7,577	7,596
Contractual cash flows	7,731	7,788

The Group's revolving credit facility of £7.5 million expires in September 2018. It also has £10.5 million of overdraft facilities (£13 million during peak periods) and these annual facilities are next due for renewal in August 2017. The directors have every expectation that these facilities will be renewed based on the current discussions with the bank. The bank term loan carries a rate of interest of 1.75% above FHBR, the revolving credit facility 1.80% above LIBOR and the two overdrafts are at a rate of interest of 1.95% above bank base rate and 1.75% above FHBR.

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 2017. The Group has granted security by way of a general debenture over its assets and a fixed charge over certain freehold properties. The value of those assets at 31 March 2017 in the statement of financial position was £64.2 million (2016: £64.7 million). 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.

19. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	11,662	14,776
Obligations relating to consignment stock	10,589	10,638
Manufacturer funding	8,191	7,637
Social security and other taxes	1,018	1,015
Accruals	2,476	2,214
Other creditors	243	88
Group total	34,179	36,368
Amounts owed to Group undertakings	250	250
Company total	34,429	36,618

19. Trade and other payables (continued)

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 (2016: 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.

20. Share-based payments

SAYE scheme

Year of grant	Exercise price	Exercise date	Number at 31 March 2016	Exercised	Cancelled	**Number at 31 March 2017**
2013	£3.12	2016	103,172	(99,382)	(3,790)	**–**

The fair value of the grants made under the SAYE scheme is charged to the Income Statement over the vesting period based on the valuation derived from an adjusted Black-Scholes model.

The total expense included within operating profit relating to the share-based payments for the year was £21,000 (2016: £51,000), with an associated tax credit to the Income Statement and Equity of £4,000 (2016: £10,000).

21. Retirement benefit scheme

Group and Company

Description of scheme

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

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

The assets of the CPS, administered by Capita Employee Benefits Limited, are held separately from those of the Company, being held in separate funds by the Trustees of the CPS. The scheme has been registered with the Pensions Regulator. The contributions are determined by a qualified actuary based on triennial valuations using the projected unit method. The most recent valuation was at 31 March 2014.

The scheme exposes the Group to actuarial risks such as:

Interest rate risk

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

Investment risk

The plan assets at 31 March 2017 are predominantly equity, government and corporate bonds. The reinvestment in Diversified Funds is intended to reduce risk while maintaining planned returns.

Longevity risk

The Company is required to provide benefits for life for the members of the CPS. Increase in the life expectancy of the members will increase the defined benefit liability.

Notes to the Financial Statements

21. Retirement benefit scheme (continued)

Inflation risk

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

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

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 5.3% 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 3.3% per annum for pension accrued before 1 April 2006 and 2.4% thereafter. The last actuarial valuation as at 31 March 2014 showed that the market value of the CPS assets was £78.4 million and that the actuarial value of those assets represented 89% of the value of the benefits that had accrued to employees at that date. The deficit arising of £9.8 million compared to a deficit of £11.4 million under IAS 19 at 31 March 2014 and was due to different assumptions being adopted for the triennial valuation. In particular, the triennial valuation assumed that future increases in pension payments were based upon the increase of the Consumer Prices Index and not the Retail Prices Index whereas the IAS19 valuation as at 31 March 2014 did not reflect this change. The IAS 19 valuation as at 31 March 2017 does, however, reflect this change (see note 2). The payments agreed with the trustees of the CPS under the Recovery Plan were for cash payments to be made in the year ending 31 March 2016 of £300,000 increasing annually from 1 April 2016 by 2.25% per annum until 31 July 2028.

Costs and liabilities of the CPS are based on actuarial valuations. The latest full actuarial valuations carried out at 31 March 2014 were updated to 31 March 2017 by Willis Towers Watson, qualified independent actuaries, for the requirements of IAS 19. Details of the actuarial assumptions are as follows:

	2017 %	2016 %
Pension accrued before 1 April 2006	**1.90**	1.90
Pension accrued after 1 April 2006	**1.50**	1.50
Discount rate	**2.40**	3.35
Inflation (CPI)	**2.10**	1.75
Rate of increase for deferred pensioners	**2.15**	1.90

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

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	+/-£1.8m
Rate of inflation	Increase/decrease by 0.1%	+/-£1.4m
Pension increases	Increase/decrease by 0.1%	+/-£1.1m
Mortality	Increase/decrease of 1 year	+/-£4.3m

21. Retirement benefit scheme (continued)

	Market value 2017 £'000	2016 £'000
The fair value of assets of the CPS on each class of assets, all of which have a quoted market price in an active market, are:		
Diversified Fund*	37,598	32,319
Dynamic Asset Allocation Fund**	26,554	27,374
Equity instruments	834	844
Bonds	4,701	4,231
Gilts	20,665	16,930
	90,352	81,698

* The typical split of assets within the Diversified Fund is 46% in equity securities, 14% in corporate bonds, 5% in government bond securities and 35% in alternative securities.

** The split of assets in the Dynamic Asset Allocation Fund was 31% in equities, 46% in government bond securities, 10% in cash equivalent securities, 6% in property securities, 7% in other securities.

In accordance with the requirements of IAS 19, the expected return on assets is based on the discount rate noted above of 2.4% and not the return on the underlying portfolio of investments. Consequently, the charge to the Income Statement for the year ending 31 March 2018 is expected to be approximately £236,000 (2017: £199,000).

Equity instruments include shares in Caffyns plc, which are detailed in note 23.

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 2017 and differ from those used for the earlier independent statutory actuarial valuation explained above.

Mortality assumptions

Life expectancy at age 65 (in years):	2017 Male	2017 Female	2016 Male	2016 Female
Member currently aged 65	22.7	24.4	22.8	24.6
Member currently aged 45	24.1	25.9	24.5	26.5

A liability is included in the Statement of Financial Position under non-current liabilities.

Analysis of the movement in the net liability for defined benefit obligations recognised in the Statement of Financial Position

	2017 £'000	2016 £'000
At 1 April	(4,980)	(5,388)
Expense recognised in the Income Statement	(199)	(215)
Contributions received	350	327
Net remeasurement recognised in other comprehensive income	(3,725)	296
At 31 March	(8,554)	(4,980)

Notes to the Financial Statements

21. Retirement benefit scheme (continued)

Total expense recognised in Income Statement

	2017 £'000	2016 £'000
Interest cost	**2,832**	2,940
Interest income on scheme assets	**(2,670)**	(2,767)
Interest – net (see note 6)	**162**	173
Current service cost	**37**	42
At 31 March	**199**	215

Changes in the present value of defined benefit obligation

	2017 £'000	2016 £'000
At 1 April	**86,678**	91,219
Service cost	**37**	42
Interest cost	**2,832**	2,940
Actuarial (gain)/losses – experience	**(883)**	(1,752)
– demographic assumptions	**(1,314)**	(896)
– financial assumptions	**17,279**	(885)
Benefits paid	**(5,723)**	(3,990)
At 31 March	**98,906**	86,678

Movement in the fair value of scheme assets

	2017 £'000	2016 £'000
At 1 April	**81,698**	85,831
Interest income	**2,670**	2,767
Actuarial gains/(losses) – financial assumptions	**11,357**	(3,237)
Contributions from the Company	**350**	327
Benefits paid	**(5,723)**	(3,990)
At 31 March	**90,352**	81,698

The best estimate of contributions payable by the Company in the year ending 31 March 2018 is £348,000. In addition, the Company is expected to meet the cost of administrative expenses and Pension Protection Fund levies (see note 25(c)). Expected benefit payments in the year to 31 March 2018 are £4.9 million.

The liabilities of the CPS are based on the current value of expected benefit payment cash flows to members of the scheme over the next 70 to 80 years. The average duration of the liabilities is approximately 18 years.

Reconciliation of the impact of the asset ceiling

The Company has reviewed the implications of the guidance by IFRIC 14 and has concluded that it is not necessary to make adjustments to the IAS 19 figures at 31 March 2017 as any surplus would be available to the Company unconditionally by way of a refund assuming the gradual settlement of plan liabilities over time until all members had left the plan.

22. Deferred tax

Group and Company

The following are the major deferred tax assets and liabilities 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	Sale of business £'000	Short- term temporary differences £'000	Recoverable ACT £'000	Total £'000
At 1 April 2015	(1,376)	(1,561)	1,078	–	16	1,138	(705)
Re-measurement	138	156	(108)	–	(2)	–	184
Prior year adjustments	49	–	–	–	–	–	49
(Charge)/credit to income	(141)	68	(23)	–	10	–	(86)
Recognised in other comprehensive income	–	–	(59)	–	–	–	(59)
At 31 March 2016	**(1,330)**	**(1,337)**	**888**	**–**	**24**	**1,138**	**(617)**
At 1 April 2016	(1,330)	(1,337)	888	–	24	1,138	(617)
Re-measurement	74	74	(49)	–	(1)	–	98
Charge to income	(80)	(2)	(18)	(796)	(23)	–	(919)
Recognised in other comprehensive income	–	–	633	–	–	–	633
At 31 March 2017	**(1,336)**	**(1,265)**	**1,454**	**(796)**	**–**	**1,138**	**(805)**

The Group carries a balance of surplus unrelieved advanced corporation tax ('ACT') which can be utilised to reduce corporation tax payable subject to a restriction to 20% of taxable profits less shadow ACT calculated at 25% of dividends. Shadow ACT has no effect on the corporation tax payable itself but any surplus shadow ACT on dividends must be fully absorbed before surplus unrelieved ACT can be utilised. The carrying value of surplus ACT is £1,138,000 (2016: £1,138,000) and Shadow ACT is £733,000 (2016: £879,000).

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:

	2017 £'000	2016 £'000
Deferred tax liabilities	**(3,398)**	(2,667)
Deferred tax assets	**2,593**	2,050
	(805)	(617)

The unrealised capital gains include 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.

There are no trading losses (2016: £Nil) available for use in future periods.

Notes to the Financial Statements

23. Called up share capital

	2017 £'000	2016 £'000
Authorised		
500,000 7% Cumulative First Preference Shares of £1 each	**500**	500
1,250,000 11% Cumulative Preference Shares of £1 each	**1,250**	1,250
3,000,000 6% Cumulative Second Preference Shares of 10p each	**300**	300
4,000,000 Ordinary Shares of 50p each	**2,000**	2,000
	4,050	4,050
Allotted, called up and fully paid		
170,732 (2016: 170,732) 7% (2016: 7%) Cumulative First Preference Shares of £1 each	**171**	171
441,401 (2016: 441,401) 11% (2016: 11%) Cumulative Preference Shares of £1 each	**441**	441
2,000,000 6% Cumulative Second Preference Shares of 10p each	**200**	200
Total preference shares recognised as a financial liability (see note below)	**812**	812
2,879,298 (2016: 2,879,298) Ordinary Shares of 50p each	**1,439**	1,439
	2,251	2,251

At 1 April 2016, the Company held 116,227 Ordinary shares as treasury shares and a further 167,663 Ordinary shares were purchased in the year to be held in treasury. During the year, 99,382 Ordinary shares (2016: 4,338 Ordinary shares) were issued from treasury shares to employees who were entitled to take up their allocation on the maturity of the SAYE scheme in August 2016 and £310,000 was received (2016: £14,000). At 31 March 2017, 184,508 Ordinary shares were held as treasury shares at a cost of £609,000. Treasury shares represent shares in the Company which are held by the Company to fulfil the requirements of any Company's SAYE scheme for eligible employees. The market value of these shares at 31 March 2017 was £932,000. Dividend income from, and voting rights on, the shares held in treasury have been waived.

On 8 February 2016 the Company repurchased 218,268 6% Cumulative First Preference shares and 206,599 10% Cumulative Preference shares. In addition, the voting rights attributable to the 10% Cumulative Preference shares were removed and at the same time the coupon rates were raised from 6% to 7% and 10% to 11% respectively.

The 7% Cumulative First 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.

The 11% 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.

The 6% Cumulative Second Preference shares continue to have voting rights (one vote per Second Preference share), except in relation to matters which under the Listing Rules (as amended from time to time) are required to be voted on only by Premium listed securities (being the Ordinary shares).

Although the Articles of Association of the Company give the directors discretion to pay the preference dividend only 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.

24. Notes to the cash flow statement

	2017 £'000	Restated 2016 £'000
Profit before taxation for continuing operations	1,659	1,243
(Loss)/Profit before tax for discontinued operations (note 8)	(61)	1,392
Profit before tax for the year	1,598	2,635
Adjustment for share redemption premium and costs	–	292
Adjustment for net finance expense	1,092	1,350
	2,690	4,277
Adjustments for:		
Depreciation of property, plant and equipment and investment properties	1,196	1,148
Change in retirement benefit obligations	(350)	(324)
Loss/(gain) on disposal of property, plant and equipment	1	(317)
Share-based payments	21	51
Operating cash flows before movements in working capital	3,558	4,835
Decrease/(increase) in inventories	1,100	(1,029)
Decrease/(increase) in receivables	611	(1,235)
(Decrease)/increase in payables	(2,034)	241
Cash generated by operations	3,235	2,812
Tax paid	(557)	(325)
Interest paid	(935)	(1,135)
Net cash derived from operating activities	1,743	1,352

Included within the amount of net cash derived from operating activities is cash inflow of £664,000 (2016: £1,574,000) attributable to discontinued operations. Accordingly, the net cash from operating activities in respect of continuing operations during the year was £1,079,000 (2016: £222,000 outflow).

Notes to the Financial Statements

25. Related parties

The remuneration of the directors, who are key management personnel, is set out in note 4 for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report on pages 18 to 30.

The 2,000,000 6% Cumulative Second Preference shares have full voting rights along with the Ordinary shares, except in relation to matters which under the Listing Rules (as amended from time to time) are required to be voted on only by Premium listed securities (being 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 control directly 42.0% of the voting rights of Caffyns plc. The directors and shareholders of Holdings are also beneficial holders of 580,959 Ordinary shares in Caffyns plc representing a further 12.2% of the voting rights. It is therefore considered that the Caffyn family is the ultimate controlling party. As required under the Stock Exchange Listing Rules, the Company entered into a Relationship Agreement with Holdings on 6 November 2014 whereby Holdings undertakes to the Company that it shall exercise its voting rights and shall exercise all its powers to ensure (so far as it is properly able to do so) that its associates shall exercise their respective voting rights and exercise all their respective powers to ensure (to the extent that they are able by the exercise of such rights to procure) that:

a. transactions and arrangements between any member of the Group and Holdings (and/or any of its associates) will be conducted at arm's length and on normal commercial terms;

b. neither Holdings nor any of its associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and

c. neither Holdings nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

Directors of the Company and their immediate relatives control 3.7% of the issued Ordinary share capital of the Company. Dividends of £23,299 were paid to directors in the year.

Caffyns Pension Fund

a. Details of contributions are disclosed in note 21.

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

	Fair value 2017 £'000	2016 £'000
Shares held		
125,570 (2016: 125,570) Ordinary Shares of 50p each	615	735
12,862 (2016: 12,862) 11% Cumulative Preference Shares of £1 each	18	13
	633	748

c. During the year to 31 March 2017 the Company paid management fees of £292,000 on behalf of the Pension Fund (2016: £240,000). These costs comprise the Pension Regulator's levy, actuarial advice and external administration fees.

26. Operating lease

The Group as lessee

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

Group and Company	2017 Land and buildings £'000	2017 Other £'000	2016 Land and buildings £'000	2016 Other £'000
Within one year	**410**	**–**	458	–
In two to five years	**1,592**	**–**	1,604	–
Beyond five years	**825**	**–**	1,223	–
	2,827	**–**	3,285	–

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 three properties comprising motor vehicle showrooms with workshop and parts retail facilities, with varying lease periods. None of these leases include contingent rentals. Two of these leases are sub-let to third parties. In addition, there are other leases in respect of items of plant and equipment.

The Group as lessor

Property rental income earned during the year from sub-letting two leased properties and the direct lease of two investment properties that began during the year was £777,000 (2016: £264,000). No contingent rents were recognised in income (2016: £nil).

At the date of the Statement of Financial Position, there were contracts for land and buildings with tenants for the following lease payments receivable:

Group and Company	2017 £'000	2016 £'000
Within one year	**757**	260
In two to five years	**1,021**	713
Beyond five years	**1,304**	773
	3,082	1,746

27. Capital commitments

The Group and Company had no capital commitments at 31 March 2017 (2016: £308,000).

28. Contingent liabilities and assets

The Group and Company had no contingent liabilities at 31 March 2017 or 31 March 2016.

VAT

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

29. 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 21. At 31 March 2017, the net liability included in the statement of financial position was £8.55 million (2016: £4.98 million).

Impairment

The carrying value of property, plant and equipment and goodwill are tested annually for impairment as described in note 11. The cash flow projections for each CGU where impairment is measured by reference to value in use are based upon actual and short-term planned results which are then extrapolated over an additional four years assuming no growth in profits and an estimate of each CGU's terminal value, discounted using a pre-tax discount rate of 12.4%. As a result of this review the directors do not consider it appropriate to impair the carrying value of any assets (2016: £nil) (see notes 11 and 12).

Deferred tax

Deferred tax assets and liabilities require management judgement in determining the amounts to be recognised. 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.

The Group carries a balance of surplus unrelieved advanced corporation tax (see below).

At 31 March 2017, the net deferred tax liability included in the balance sheet was £805,000 (2016: £617,000).

Surplus ACT recoverable

The Group carries a balance of surplus unrelieved advanced corporation tax ("ACT") which can be utilised to reduce corporation tax payable subject to a restriction to 20% of taxable profits less shadow ACT calculated at 25% of dividends. Shadow ACT has no effect on the corporation tax payable itself but any surplus shadow ACT on dividends must be fully absorbed before surplus unrelieved ACT can be utilised. The carrying value of surplus ACT is £1,138,000 (2016: £1,138,000) and shadow ACT is £733,000 (2016: £879,000). Uncertainty arises due to the estimation of future levels of profitability, levels of dividends payable and the reversal of deferred tax liabilities in respect of accelerated capital allowances and on unrealised capital gains. For example, a reduction in the Group's profitability could result in a delay in the utilisation of surplus unrelieved ACT. However, based on the Group's current projections, the directors have a reasonable expectation that the surplus ACT will be fully relieved against future corporation tax liabilities by 31 March 2022.

Inventory valuation

Motor vehicle and parts 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 2017 the value of vehicles included in the statement of financial position was £18.5 million (2016: £21.3 million). Parts inventories, in accordance with normal industry practice, are normally valued based on replacement cost. On the basis that the Company's parts stocks are turned over almost monthly, the directors are satisfied that the difference between replacement cost and actual cost are not material. The fair value of parts stocks included in the statement of financial position was £0.9 million (2016: £1.0 million).

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

Consignment inventories

Consignment vehicles are regarded as effectively under the control of the Group and are included within inventories on the Statement of Financial Position when the Group has substantially all 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 2017 the value was £10.6 million (2016: £10.6 million).

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 £1,159,000 (2016: £148,000).

VAT

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

Going concern

The directors assess the appropriateness of the going concern basis for the preparation of the financial statements. In doing so they consider the ability of the Group to trade within the financing facilities available to it. The conclusion of this assessment is set out in the accounting policy "Basis of preparation and statement of compliance" on pages 49 and 50.

Disposal of Land Rover

The directors have considered IFRS 5 in relation to the classification of the trading performance and disposal of the Land Rover business which completed on 29 April 2016. The sale of the business was conditional upon shareholder approval on 21 April 2016 and as such, at 31 March 2016, the directors did not know the outcome of this vote. The directors were unable to determine that it was highly probable that the vote would approve the disposal as at 31 March 2016 and accordingly continued to classify the dealership's results as continuing operations within their 2016 financial results. Following completion, the business has been treated as a discontinued operation which has resulted in a restatement of the 2016 results to show these separately within the Income Statement.

Five Year Review

(adjusted for discontinued operations)

	2013 £'000	2014 £'000	2015 £'000	2016 £'000	**2017** **£'000**
Income Statement					
Revenue	136,315	158,783	172,400	186,401	**212,581**
Underlying operating profit	1,821	2,141	2,480	2,544	**2,981**
Finance expense	(884)	(852)	(1,184)	(1,079)	**(930)**
Underlying profit before tax	937	1,289	1,296	1,465	**2,051**
Non-underlying items	304	(600)	8,966	(222)	**(392)**
Profit before tax from discontinued operations	281	877	1,176	1,392	**4,623**
Profit before tax	1,522	1,566	11,438	2,635	**6,282**
Profit after taxation	982	1,411	9,255	2,487	**5,123**
Basic earnings per ordinary share	35.5p	51.0p	335.5p	90.1p	**186.3p**
Adjusted earnings per ordinary share	28.4p	46.9p	43.6p	48.8p	**58.0p**
Dividend per ordinary share payable in respect of the year	12.0p	18.0p	20.25p	21.75p	**22.50p**

These results are shown exclusive of the Land Rover business which was sold in April 2016.

As at year end					
Shareholders' funds	15,315	17,913	24,494	26,696	**27,536**
Property, plant and equipment*	32,047	38,162	37,984	39,385	**42,609**
Bank overdrafts and loans (net)	9,846	11,929	10,133	11,156	**8,554**
Bank overdrafts and loans/shareholders' funds (gearing)	64%	67%	41%	42%	**31%**
Retirement benefit liability	13,641	11,360	5,388	4,980	**8,554**

* Includes Investment property and assets held for sale

Our dealerships

AUDI

BRIGHTON :	200 Dyke Road, Brighton BN1 5AT (01273 610578)
EASTBOURNE :	Edward Road, Eastbourne BN23 8AS (01323 344062)
WORTHING :	Broadwater Road, Worthing BN14 8AH (01903 373081)

SEAT

TUNBRIDGE WELLS :	North Farm Industrial Estate, Tunbridge Wells TN2 3EL (01892 256413)

SKODA

ASHFORD :	The Boulevard, Ashford TN24 0GA (01233 273045)
TUNBRIDGE WELLS :	North Farm Industrial Estate, Tunbridge Wells TN2 3EL (01892 256415)

VAUXHALL

ASHFORD :	Monument Way, Orbital Park, Ashford TN24 0HB (01233 273470)

VOLKSWAGEN

BRIGHTON :	Victoria Road, Portslade BN41 1YD (01273 610585)
EASTBOURNE :	Lottbridge Drove, Eastbourne BN23 6PW (01323 401075)
HAYWARDS HEATH :	Market Place, Haywards Heath RH16 1DN (01444 650251)
WORTHING :	Nightingale Avenue, Worthing BN12 6FH (01903 250550)

VOLVO

EASTBOURNE :	Lottbridge Drove, Eastbourne BN23 6PJ (01323 344510)

HEAD OFFICE

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

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