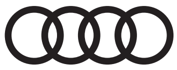
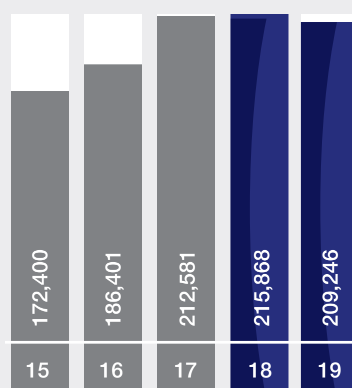
CAFFYNS



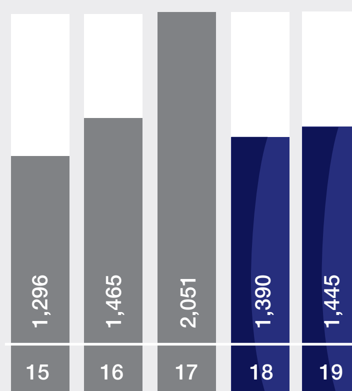
Caffyns plc

Annual Report 2019

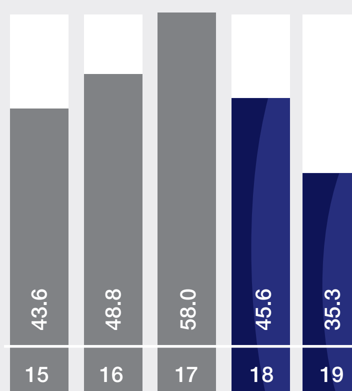
Revenue* (£'000)



Underlying PBT* (£'000)



Underlying earnings per ordinary share* (p)



Results at a Glance

Summary

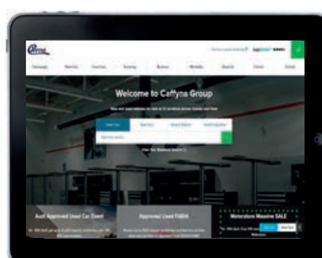
	2019 £'000	Restated 2018 £'000
Revenue	209,246	215,868
Underlying* EBITDA	3,982	3,510
Underlying* profit before tax	1,445	1,390
(Loss)/profit before tax	(428)	1,165

	p	p
Underlying* earnings per share	35.3	45.6
(Deficit)/earnings per share	(21.0)	38.2
Proposed final dividend per ordinary share	15.00	15.00
Dividend per share for the year	22.50	22.50

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

Overview

- Like-for-like new car unit sales down 10.0% against a 2.8% fall in our market sector
- Like-for-like used car unit sales up 5.9% against 2018
- Aftersales revenue up 7.4% against 2018
- Revenue down 3.1% to £209.2 million
- Underlying profit before tax increased to £1.45 million (2018: £1.39 million)
- Recommended dividend per ordinary share for the year maintained at 22.50 pence (2018: 22.50 pence)
- Property portfolio revaluation as at 31 March 2019 showing an £11.2million (2018: £10.3 million) surplus to net book value (not recognised in the accounts)



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Operational and Business Review

The year under review produced a 4% headline increase in underlying profit before tax to £1.45 million (2018: £1.39 million) although the story for the year was more nuanced. At our half-year stage, I highlighted the adverse impact on our brands that arose from the new emissions-testing regime, the Worldwide Harmonised Light Vehicle Test Procedure, commonly referred to as WLTP, which created a scarcity of supply of new cars for most of our brands. This was quickly rectified for some brands but, for others, the impact lingered well into the second half of the year and was a significant drag on both turnover and profits. As a result, our full year turnover fell by 3.1% to £209.2 million (2018: £215.9 million). However, in areas of the business that were not impacted by these external issues, we continued to achieve good growth with used car sales up by 5.9%, and service and parts revenues up by 7.7% and 7.3% respectively. Underlying earnings were also boosted by a compensation receipt, net of costs, of £0.3 million. This arose from an agreed settlement of a claim for trading losses caused by disruption from alterations and repairs required to one of our freehold premises. This credit appears in Other Income in these financial statements.

The statutory result before tax for the year was also heavily affected by several non-underlying items, the most significant of which was a £0.9 million charge for equalising the Guaranteed Minimum Pensions for the male and female members of our closed defined-benefit pension scheme, required following a legal precedent set in November 2018. The non-underlying items for the year are detailed in note 2 to the financial statements.

Our statutory result before tax for the year was a loss of £0.4 million (2018: profit of £1.2 million). Basic deficit per share was 21.0 pence (2018: earnings of 38.2 pence).

Underlying earnings per share for the year were 35.3 pence (2018: 45.6 pence).

New and used car sales

Our new unit sales fell by 10.0% on a like-for-like basis as one of our principal manufacturers implemented an agency sales arrangement for certain classes of new car sales from April 2018 and also from the negative impact of WLTP. Excluding this one manufacturer, our new car sales would have shown growth of 2.2% against the prior year. In the year total UK new car registrations reported a 3.7% reduction while, within this total, new car registrations in the private and small business sector in which we principally operate fell by 2.8%. Although we experienced pressure on new car margins, our achievement of manufacturer bonus targets was pleasing with the result that an increase in unit new car gross profit partially helped to mitigate the fall in sales volumes in the year.

For used cars, unit sales volumes improved by 5.9% on a like-for-like basis, and with an improvement in unit used car margins. Over the last five-year period, the Company has recorded a 42% like-for-like growth in the number of used cars sold and we continue to see this element of our business providing a major opportunity for further growth. The number of used cars sold again exceeded the number of new cars sold in the year.

Throughout the year under review, we continued to upgrade our website with multiple enhancements to our customers' online searching capabilities, leading to an easier, more enjoyable car-buying experience.

Aftersales

Despite the falls in the UK new car market in the financial year under review, the number of one to three year-old cars in circulation remains historically at very high levels. Our three-year car parc has grown over the last five years and we are encouraged that our service revenues in the year have continued to rise, by 7.7% on a like-for-like basis. We continue to place great emphasis on our customer retention programmes and in growing sales of service plans. Our parts business also reported sales growth, up by 7.3% on a like-for- like basis over the previous year.

Operations

The financial results from our Volkswagen businesses improved markedly in the year as operational performance issues experienced in the previous year were overcome and the division returned to profitable trading. Although new car sales volumes declined from last year's levels, this was more than mitigated by an increase in used car sales. Aftersales revenues, and profits, also improved against the prior year. We remain confident that the strength of the brand, the excellent model range and exciting new products will lead to further improvements in its future trading performance.

Our Volvo business in Eastbourne enjoyed an excellent year with the XC40 and V60 models being very positively received by customers. Our Volvo aftersales business also reported strong growth in profitability for the year. We continue to assess plans to expand our showroom facility to better accommodate these extra models and expect to commence the redevelopment in the current financial year.

Our Audi businesses experienced a very difficult year with the brand being particularly impacted upon by the introduction of WLTP, from 1 September 2018. New car supply was significantly constrained, and the brand reported a national 34% fall in registrations over the following seven months to our year-end at 31 March 2019. This was significantly worse than the 8% experienced by the overall UK market. This scarcity in supply adversely impacted profitability which fell by more than half against the previous year. New car supply has now largely returned to more normal levels and we look forward to improvements to profitability in this business.

In Tunbridge Wells, our SEAT business continued to perform well and, in conjunction with the adjacent Skoda business, continues to deliver healthy levels of profitability. Our Skoda business in Ashford also performed satisfactorily.

Our Vauxhall business in Ashford continued to experience challenging trading conditions in the year. However, Vauxhall's national new car registrations in the year were down by only 3% which was less than the decline in the overall UK market. Losses from the business were significantly less than experienced in the prior financial year.

Trading at Caffyns Motorstore, our used car business in Ashford, slowed in the year as the business suffered from growing pains although the concept has been very well received by our customers who particularly value the reassurance of the Caffyns brand. Management changes have been made since the year-end and we expect performance to improve.

Operational and Business Review (continued)

Groupwide projects

We remain focused on generating further improvements in used car sales, used car finance and aftersales. These three key areas helped to achieve the increase in profitability in the year under review, with very pleasing growth continuing to be recorded in 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. As in previous years, our freehold premises were revalued at the balance sheet date by chartered surveyors CBRE Limited based on an existing use valuation. The excess of the valuation over net book value of our freehold properties at 31 March 2019 was £11.2 million (2018: £10.3 million). This is after property impairments on two separate properties of £0.54 million and £0.40 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.

During the year, we incurred capital expenditure of £2.8 million (2018: £5.6 million). This included the completion of our new Audi "Terminal" facility at Angmering which opened in July 2018. This facility comprises two state-of-the-art new car configurator areas in addition to a ten-car showroom as well as extended used car display areas. The aftersales facility comprises a fourteen-bay workshop and innovative drive-through service reception area. The facility will enable the Worthing business to grow considerably and benefit from the development of new housing in the area. The business's previous base at Broadwater Road in Worthing was leased to a third party on a 15-year lease that commenced in February 2019.

Our freehold premises in Lewes remain leased until April 2020 to the purchaser of our former Land Rover business, which was sold in April 2016. The Board continues to evaluate future opportunities for the site.

Bank facilities

The Company's banking facilities with HSBC Bank comprise a term loan, originally of £7.5 million, repayable by instalments over a twenty-year period to 2038 and a revolving-credit facility of £7.5 million, both of which will next become renewable in March 2023. HSBC Bank also provides an overdraft facility of £3.5 million, renewable annually. In addition, the Company has an overdraft facility of £7.0 million provided by Volkswagen Bank, renewable annually, together with a term loan, originally of £5.0 million, which is repayable by instalments over the ten years to November 2023.

Bank borrowings, net of cash balances, at 31 March 2019 were £13.6 million (31 March 2018: £14.0 million) and as a proportion of shareholders' funds at 31 March 2019 were 49% (2018: 50%). The reduction in gearing in the year was primarily the result of cash generated from operating activities in the year.

Taxation

The year ended 31 March 2019 produced a tax charge of £0.1 million (2018: £0.1 million). The current year effective tax rate was significantly lower than the standard rate of corporation tax in force for the year of 19%, mainly due to movements in the tax liability on unrealised gains arising from the sale of properties and goodwill in prior accounting periods. The lower effective tax rate in the previous financial year was the result of an adjustment for an over-provision of tax of £0.14 million in the previous financial year.

The Company has no current outstanding trading or capital losses awaiting relief. Capital gains which remain unrealised, where potentially taxable gains arising from the sale of properties and goodwill have been rolled over into replacement assets, amount to £8.0 million (2018: restated as £9.0 million) which could equate to a future potential tax liability of £1.4 million (2018: restated as £1.5 million). The Company also has an amount of £1.1 million (2018: £1.1 million) of recoverable Advanced Corporation Tax ("ACT") and £0.7 million (2018: £0.8 million) of Shadow ACT. The Board remains confident in the recoverability of the ACT although the Shadow ACT must first be fully absorbed before the ACT balance itself can become available to be utilised. However, given the inherent uncertainty in recovering this ACT, a partial impairment has been made to reduce the net deferred tax position to zero and we have not recognised a deferred tax asset at 31 March 2019.

As noted above, the Company identified an error in both its calculation and methodology of its potential deferred tax liability on held-over gains from property disposals and from accelerated capital allowances in prior accounting periods

which had resulted in an overstatement of its deferred tax liability by £790,000 as at 1 April 2017. A prior year adjustment to the previously stated values has been made in these Financial Statements to correct this error.

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 in the valuation calculations as required by accounting standards and the unprecedented low yields of gilts and bonds continues to have a significant impact on the net funding position of the scheme. In addition, the results for the year reflect the expected financial impact of equalising the Guaranteed Minimum Pensions of Scheme members. Therefore, it was very pleasing to note a narrowing of the deficit at 31 March 2019 to £8.6 million (2018: £9.5 million). The deficit, net of deferred tax, was £7.1 million (2018: £7.9 million).

In the previous financial year, the trustees appointed a fiduciary manager to the Scheme and the Board, together with the independent pension fund trustees, continues to review options to reduce the cost of operating the Scheme and reducing its deficit. Actions that could further reduce the risk profile of the assets and more closely match the nature of the Scheme's assets to its liabilities continue to be sought.

The pension cost under IAS 19 continues to be charged as a non-underlying cost and amounted to £249,000 in the year (2018: £236,000). In addition, the Income Statement has been charged with a non-underlying cost of £851,000 which is our best estimate of the financial impact of equalising Guaranteed Minimum Pensions between our male and female scheme members. This follows the legal guidance provided by the High Court in November 2018. The full process of equalisation will need to occur over a considerable period of time, but the estimated cost has been arrived at following advice from the Scheme's actuary.

A formal triennial valuation of the Scheme was last carried out as at 31 March 2017 and was submitted to the Pension Regulator prior to the 30 June 2018 deadline. A recovery plan to deal with the Scheme deficit identified from this triennial valuation was agreed with the trustees and, as a result, the Company made deficit-reduction contributions into the Scheme in the year of £480,000 (2018: £314,000). This annual recovery plan payment for the coming and each subsequent year will increase by the greater of either 2.25% or the growth in shareholder dividend payments until superseded by a new recovery plan to be agreed between the Company and the trustees. The next triennial valuation of the Scheme will take place with effect from 31 March 2020.

Operational and Business Review (continued)

People

I am very grateful for the dedication of our employees and the effort they apply to provide our customers with a first-class experience. Across the Company the hard work and professional application of our employees has helped to minimise the fall in car sales volumes and to continue to grow our aftersales operations.

Nick Hollingworth will be retiring from the Board in July 2019, having served eleven years as a non-executive director. I, and other members of the Board, would like to thank him for his valuable contribution over that period. The search process for Nick's successor is well advanced and we expect to make an appointment by July.

Apprenticeships

The Company has a long tradition of investing in apprenticeship programmes and this continued alongside the new Government apprenticeship levy that was implemented from the start of our previous financial year in April 2017. Despite early teething problems experienced with the registration and accreditation processes of the new levy regime, our own apprenticeship numbers have increased year-on-year and we continue to see the benefits flow through the business as more apprentices complete their training and become fully qualified. Due to our apprentice numbers, we currently anticipate that we will be able to fully utilise our levy payments within the stipulated time limits.

We remain firmly committed to the long-term benefits of apprenticeships and our recruitment programme continues with the aim of taking on an increasing complement in the coming year to assist the Company to grow.

Dividend

The Board remains confident in the future prospects of the Company and has therefore declared an unchanged final dividend of 15.0 pence per ordinary share. If approved at the Annual General Meeting, this will be paid on 2 August 2019 to ordinary shareholders on the register at close of business on 5 July 2019.

Together with the interim dividend of 7.5 pence per Ordinary share (2018: 7.5 pence) paid during the year, the total dividend for the year will be 22.5 pence per ordinary share (2018: 22.5 pence).

Strategy

Our continuing strategy is to focus on representing premium and premium-volume franchises as well as maximising opportunities for used cars. We recognise that we operate in a rapidly changing environment and continue to carefully monitor the appropriateness of this strategy. We continue to seek opportunities to invest in the future growth of our businesses.

We are concentrating on larger business opportunities in stronger markets to deliver higher returns on capital from fewer but bigger sites. We continue to deliver performance improvement, in particular in our used car and aftersales operations.

Outlook

We closed the year with a strong performance in the registration-plate change month of March. The current consensus for the 2019 calendar year is for a further single-digit fall in the UK new car market so we are cautious about the outlook and remain dependent on the key months of September and March. The vehicles emissions regime will undergo further change in September with the implementation of Real-Driving Emissions although we are hopeful that any constraint on new car supply will be considerably less than that caused by the implementation of WLTP in September 2018.

Our balance sheet is appropriately funded and our freehold property portfolio is a source of stability. We remain confident in the longer-term prospects of the Company and are ready to exploit future business opportunities.

S G M Caffyn
Chief Executive
31 May 2019

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 6. The main Key Performance Indicators are:

Financial	2019 £'000	2018 £'000
Revenue	£209.25m	£215.87m
Underlying profit before tax	£1.45m	£1.39m
(Loss)/profit for the year before tax	£(0.43)m	£1.17m
Underlying earnings per share	35.3p	45.6p
(Deficit)/earnings per share	(21.0)p	38.2p
Bank overdrafts and loans (net)	£13.6m	£14.0m
Gearing	49%	50%

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

Non-Financial	2019	2018
UK new car market – total registrations	2.35m	2.44m
UK new car market – retail and small business sectors	1.13m	1.16m
Caffyns new car sales	4,405	4,895
Caffyns used car sales	5,385	5,085
Caffyns aftersales revenue (excluding internal sales)	£18.3m	£17.0m
Company employees (full time equivalents)	421	413

Business performance

New and Used Cars

Our new unit sales were down by 10.0% on a like-for-like basis. Over the twelve-month period, total UK new car registrations fell by 3.7% and, within this, the private and small business sector in which we operate fell by 2.8%. Our sales in the year were adversely impacted by two factors: the introduction by one of our principal manufacturers of an agency arrangement for certain new car deliveries and by WLTP. Excluding that one manufacturer, our new car sales volumes rose 2.2% from the previous year, better than the reduction recorded by the private and small business sector. The performance of our premium and premium-volume franchises remained satisfactory.

Used car unit sales increased by 5.9%.

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 a 7.4% increase in like-for-like aftersales revenues. The actions we have taken to enhance our aftersales marketing and retention procedures, together with our new and used car sales, continue to help to further this trend.

Business strategy

The Company continues to focus 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 the 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 the Company 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 13 to 18. Other financial risk management factors are referred to in notes 16 and 18 to the financial statements.

Strategic Report (continued)

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 as a result of the UK's decision to leave the European Union. Other relevant factors would include 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 macroeconomic 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 could 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 vehicle 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. Where manufacturers are reorganising their networks and have issued termination notices, the Company has received confirmations that it will be offered new franchise 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 capability 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. These negotiated facilities provide sufficient liquidity and funding. We do not presently hedge against interest rates, but the position is kept under regular 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.

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 European Union together with wider global political developments, a degree of uncertainty in the UK economy has been created. We believe the main risks to arise from this relate to consumer confidence, 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.

Strategic Report (continued)

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 total number of our employees in each category, by gender, as at 31 March 2019.

	Female	Male	Total
Director	1	5	6
Senior management	–	11	11
All other employees	109	337	446

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 seeing the benefits of this investment. 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.

Mandatory Carbon Reporting

This section includes our mandatory reporting of greenhouse gas emissions for the period 1 January 2018 to 31 December 2018, 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 2018 calendar year our businesses emitted 1,384.96 tonnes of carbon dioxide or CO_2 (2017: 1,365.28 tonnes). Our emissions are principally of carbon dioxide (CO_2), and are from the following sources:

Greenhouse gas emissions data	Tonnes of CO_2 2018	Tonnes of CO_2 2017	Tonnes of CO_2 2016
Scope 1			
Gas Consumption	308.64	286.66	303.34
Owned Transport	87.44	90.50	96.21
Water Supply	5.23	4.75	4.20
Scope 2			
Purchased Electricity	995.86	982.37	1,049.60
Generated Electricity	12.21	1.00	0.25
Statutory total (Scope 1 and 2)	**1,384.96**	**1,365.28**	**1,453.60**
Revenue	£186.26m	£213.11m	£217.35m

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.

2016 – Intensity ratio (tonnes of CO_2 per £million of revenue): 6.69 tonnes per £million of revenue.

2017 – Intensity ratio (tonnes of CO_2 per £million of revenue): 6.40 tonnes per £million of revenue.

2018 – Intensity ratio (tonnes of CO2 per £million of revenue): 6.46 tonnes per £million of revenue

Our Greenhouse Gas emissions associated with waste arise from a number of waste streams generated from our business. As conversion to carbon dioxide equivalent, CO_2e, data is not readily available for a number of our waste streams, we have chosen to report this in weight and percentage of waste recycled/landfill as opposed to CO_2. Waste in 2018 was 491.64 tonne (2018: 468.66 tonne) of which 95% was recycled (2018: 93%).

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. The spring of 2018 saw a significant spell of cold weather in late February and early March resulting in much higher electricity and gas usage. To minimise our energy usage we continue, where practicable, to install LED lights in our sites as 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. We seek to limit our paper consumption and waste through increasingly paperless communications and systems.

Health and safety

The Board recognises its 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 and this is always the first agenda item at each Board meeting. 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 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
31 May 2019

Board of Directors

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
1st floor, First point, Buckingham Gate, London Gatwick Airport, West Sussex, RH6 0NT

VOLKSWAGEN BANK
Brunswick Court, Yeomans Drive, Blakelands, Milton Keynes, MK14 5LR

Independent Auditor

GRANT THORNTON UK LLP
Statutory Auditor, Chartered Accountants
2nd floor, 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 2016 ("the Code").

The Company has complied throughout the year ended 31 March 2019 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 has commenced a search process to identify a suitable replacement non-executive director and expects to implement a change before the next Annual General Meeting in July 2019.

A description of the Company's business model and strategy is set out in the Strategic Report on page 7.

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.

Chairman's Statement on Corporate Governance (continued)

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 15 and 16 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 2019) 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 31 May 2019 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.

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 seeks re-election annually.

Meetings and attendance

There were nine meetings of the Board in the year under review with Mr N W Hollingworth unable to attend one of the meetings. All other directors attended all meetings.

Nomination Committee

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

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

The Nomination Committee is responsible for leading the process for appointments to the Board and meets at least once a year. The Committee is chaired by Mr R 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 three times during the year. Mr N W Hollingworth was unable to attend one of the meetings. All other members eligible to attend were present at all the meetings.

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 Board also remains satisfied that the Committee as a whole has competence relevant to the sectors in which the Company operates. 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.

At its second meeting, the Committee reviews the external audit plan.

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 effectiveness and independence of the external auditor, including monitoring the level of audit and non-audit fees.

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 2019, 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.

Chairman's Statement on Corporate Governance (continued)

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 mitigating factors should be implemented (highlights from this work are included in the Strategic Report).
- Revenue recognition – the accuracy of cut-off procedures around the year-end date is recognised as important for ensuring that revenue is recognised in the correct accounting period. The Committee has considered the procedures and controls in respect of revenue recognition, particularly in relation to the implementation in the period of IFRS 15 Revenue from Contracts with Customers, and has been satisfied that they are satisfactory.
- Review of poorly performing dealerships – as part of both the interim and year-end review process, consideration is given to potential impairments of property, plant and equipment, investment property and goodwill 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. As part of the external audit, the Committee fully discussed with the external auditor the identification of cash generating units ("CGUs") for the purposes of impairment testing. The Committee considered the external auditor's technical challenges concerning the basis on which CGUs had been identified in the previous year, and concurred with those challenges which resulted in further impairment charges and a higher level of associated disclosures. The Committee is satisfied that no material impairments are required in addition to those made in the year.
- 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 misstatement 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 continued to monitor 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. The Company's auditor does not provide compliance services in the field of taxation advice.

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 61.

Effectiveness and independence of external auditor

Grant Thornton UK LLP has been external auditor since 1964. 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. In the light of this length of tenure, the Committee has instigated an audit tender process and it is anticipated that the appointment of a replacement external auditor will be recommended to shareholders at the Annual General Meeting.

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.

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.

Financial Reporting Council ("FRC")

The most recent full review of its financial statements by the FRC was in relation to the 2014 year-end. In 2017, the FRC carried out an audit quality inspection of Grant Thornton UK LLP. This identified one area of concern and the auditor modified the audit process for subsequent audits although no adjustments were required to the 2017 financial statements. The FRC carried out a thematic review of the 2018 accounts, solely for the areas of pensions and taxation. No issues of significance were identified although some suggestions for future disclosures were made. These have been carefully considered and, where deemed appropriate, acted upon.

Tax strategy and objective

As a responsible 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. A copy of the Company's tax strategy is available from its corporate website, www.caffynsplc.co.uk.

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. The directors have also taken into consideration that the Company's 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 page 52.

Information concerning the Company's liquidity and financing risks are set out on page 8 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 2022. 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.

Chairman's Statement on Corporate Governance

(continued)

During the year to 31 March 2019, 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 2022.

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 corporate 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.

By order of the Board

R C Wright
Chairman
31 May 2019

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 2019. This Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee ("the Committee") in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 and is split into two sections:

- the directors' remuneration policy sets out the Company's intended policy on directors' remuneration from 27 July 2017 which was subject to a binding shareholder vote at the 2017 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 2019 financial year.

The information set out on pages 20 to 31 (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 2018, the considerations by the directors of matters relating to directors' remuneration and the statement of shareholder voting at the 2018 Annual General Meeting.

Remuneration outcomes for the 2019 financial year

Annual bonus opportunities are based on the achievement of profit before tax targets. Bonuses of 19% of eligible salary have been awarded to the executive directors in respect of the 2019 financial year, which reflects the financial results against target of the Company for the year.

Key remuneration decisions for the coming 2020 financial year

The base salaries for the executive directors were increased by 2.0% with effect from 1 April 2019. Salaries for all employees were increased by an overall average of 2.0% with effect from 1 April 2019

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 2019.

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
31 May 2019

Directors' Remuneration Report (continued)

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 27 July 2017 at the Annual General Meeting and became effective from that date. The full policy was disclosed in the 2018 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 were awarded 2.0% increase from 1 April 2019. 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.

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.

Directors' Remuneration Report (continued)

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 25. 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 2019

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' 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 six months' notice and is entitled to six months' notice from the Company.
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 prorated bonus to the end of the notice period is also payable.	None.	None.	None.

Directors' Remuneration Report (continued)

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 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.

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 continues to be appointed for a period of one year. When considering the reappointment 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 2019 (months)
R C Wright	27 July 2018	26 July 2021	28
N W Hollingworth	1 February 2018	31 July 2019	4
N T Gourlay	26 September 2016	25 September 2019	6

* 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.

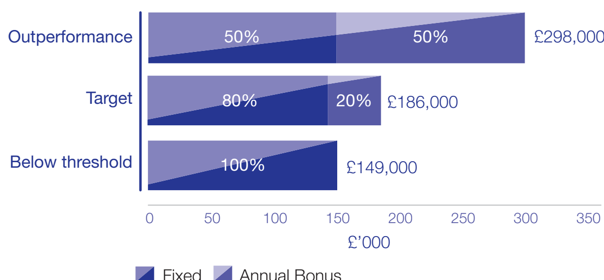
Total remuneration opportunity for the year ending 31 March 2020

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.

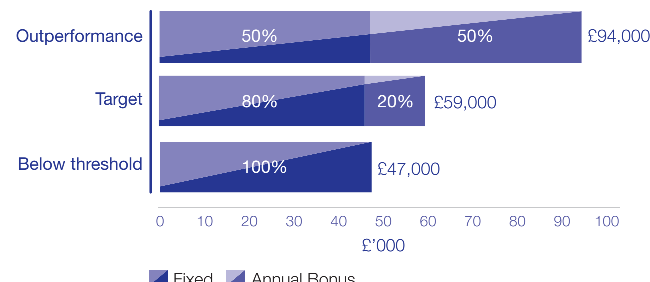
The elements of remuneration have been categorised into two components; (i) Fixed and (ii) Annual variable (annual bonus awards).

S G M Caffyn

M Warren



S J Caffyn



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Directors' Remuneration Report (continued)

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 a 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.

ANNUAL REPORT ON REMUNERATION

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 2020, the consideration by the directors of matters relating to directors' remuneration and the statement of shareholder voting at the 2018 Annual General Meeting, the information set out in this part of the Directors' Remuneration Report is subject to audit.

Single total figure of remuneration for 2019

The following table shows a single total figure of remuneration in respect of qualifying services for the 2019 financial year for each director, together with comparative figures for 2018. 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	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Executive directors										
S G M Caffyn	**284**	278	**17**	16	**54**	–	**9**	8	**364**	302
M Warren	**145**	143	**14**	8	**28**	–	**4**	4	**191**	155
S J Caffyn	**46**	45	**4**	3	**9**	–	**1**	1	**60**	49
Total	**475**	466	**35**	27	**91**	–	**14**	13	**615**	506
Non-executive directors										
R C Wright	**65**	64	**–**	–	**–**	–	**–**	–	**65**	64
N W Hollingworth	**29**	29	**–**	–	**–**	–	**–**	–	**29**	29
N T Gourlay	**29**	29	**–**	–	**–**	–	**–**	–	**29**	29
Total	**123**	122	**–**	–	**–**	–	**–**	–	**123**	122
Aggregate directors' emoluments	**598**	588	**35**	27	**91**	–	**14**	13	**738**	628

Annual bonus

Bonuses are earned by reference to the financial year and paid in May or June following the end of the financial year. The bonuses accruing to the executive directors in respect of the year ended 31 March 2019 are based on the underlying profit before tax as shown below:

	Threshold	Target	Maximum	Actual performance	Bonus value as % of salary: S G M Caffyn Max	S G M Caffyn Actual	M Warren Max	M Warren Actual	S J Caffyn Max	S J Caffyn Actual
Underlying profit before tax*	£1.32m	£1.68m	£3.00m	£1.45m	100%	19%	100%	19%	100%	19%
Bonus receivable	15%	25%	100%	19%		£54,040		£27,630		£8,772

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

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Directors' Remuneration Report (continued)

Pension entitlements and cash allowances

One executive director, the Company Secretary, is a deferred member of the Company's closed defined benefit pension scheme ("the DB Scheme") at 31 March 2019 (2018: one). The ultimate pension of the Company Secretary will be 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 this director will be on a "career average" basis and based upon earnings in each financial year. The DB Scheme closed to future accrual with effect from 1 April 2010.

The Company Secretary, who is a member of the DB Scheme, is eligible for a pension at normal retirement age of 65. Pensions for the Company Secretary for service since 1 April 2010 has been provided on a contributory basis through the Company's defined-contribution 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 2019 £'000	Total annual accrued pension at 31 March 2018 £'000
S J Caffyn	12 December 2033	35	34

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 (2018: 5%) simple, except where the Company consents to early retirement between 60 and 65, and then no discount would be applied. 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 2019, none of the executive directors were members of the Company's defined-contribution Scheme (2018: 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 2019 are summarised within the Report of the Directors.

All employee share scheme

Details of share options held by executive directors under the SAYE Scheme 2017 (see note 23) are as follows:

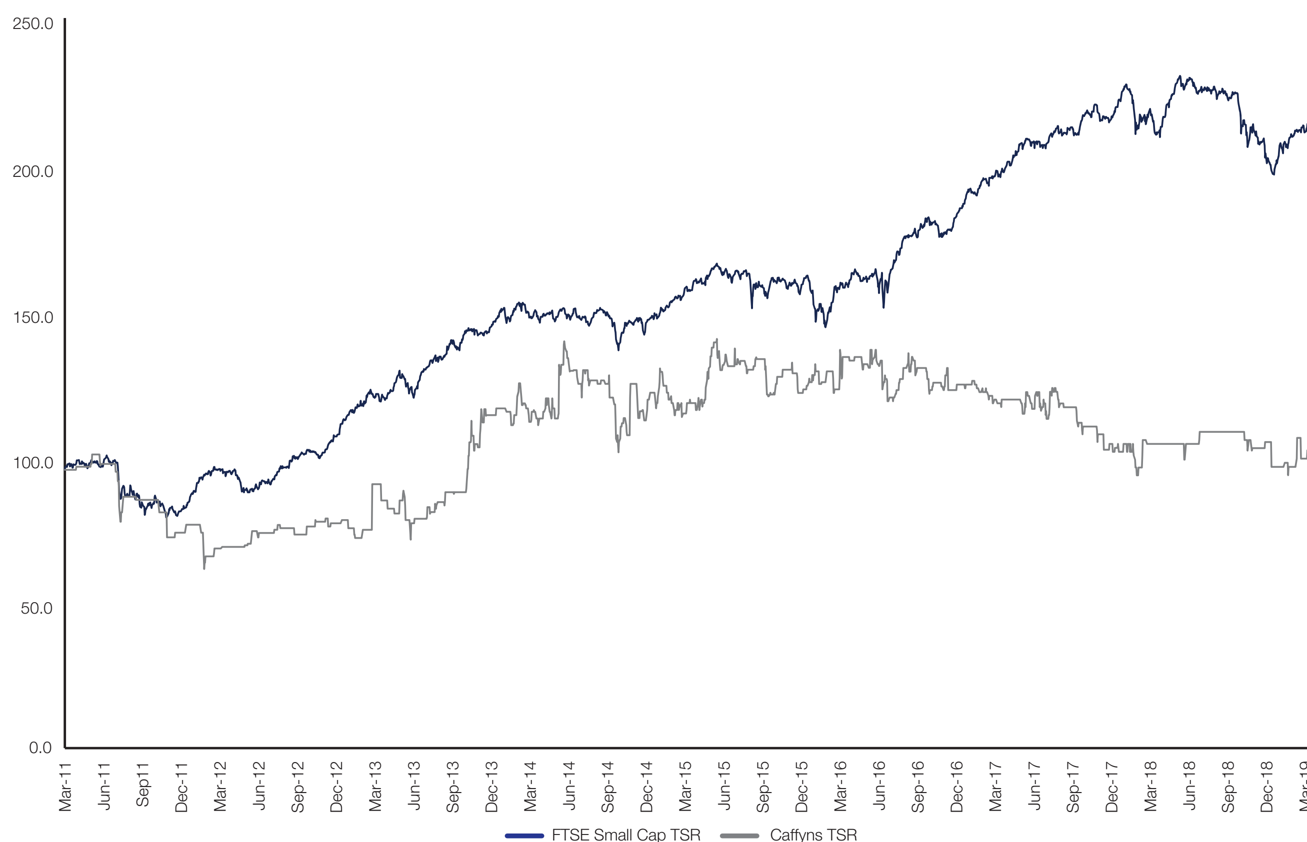
	Scheme	Date of Grant	Earliest Exercise Date	Expiry Date	Exercise Price £	Number at 1 April 2018	Granted in year	Number at 31 March 2019
S G M Caffyn	ShareSave	12/07/2017	01/09/2020	28/02/2021	3.99	1,434	–	1,434
M Warren	ShareSave	12/07/2017	01/09/2020	28/02/2021	3.99	1,434	–	1,434

The market value of the shares at the date of grant was £4.75 giving a face value of the awards for each director of £1,090.

Performance graph and table

The chart below shows the Company's eight-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 2011 to 31 March 2019



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	2014	2015	2016	2017	2018	**2019**
Total single figure £'000	534	389	410	388	302	**364**
Annual bonus % of maximum opportunity	100.0%	38.9%	42.7%	30.5%	–	**18.5%**

Directors' Remuneration Report (continued)

Change in remuneration of Chief Executive

The base salary of the Chief Executive increased between 31 March 2018 and 31 March 2019 by 2%, the same percentage increase compared with the average change for the Company's Branch Managers and Regional Directors. Neither the Chief Executive nor the comparator group received any changes to their employment benefits during the year. The Chief Executive received a bonus of £54,000 for the year which compared to a nil bonus in the prior year when the Company's result did not exceed the threshold set under the bonus scheme. The bonuses for the comparator group increased by 59% compared to the prior year.

The comparator group comprises Regional Directors and Branch Managers and has been selected on the basis that these managers have direct senior 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 2019 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 2019 £'000	Spend in 2018 £'000	Increase %
Spend on staff pay (including directors)	**13,723**	13,141	4%
Profit distributed by way of dividend	**606**	606	0%

If the proposed final dividend for the year ended 31 March 2019 is approved at the forthcoming Annual General Meeting, the total dividend payable in respect of the year to 31 March 2019 will be unchanged at £606,000 (2018: £606,000).

Implementation of remuneration policy 2019/20

The annual salaries and fees to be paid to directors in 2019/20 are set out in the table below, together with any increases expressed as a percentage.

	2020 salary/ fees £'000	2019 salary/ fees £'000	Increase/ (decrease) %
S G M Caffyn	**290**	284	2%
M Warren	**149**	146	2%
S J Caffyn	**47**	46	2%
R C Wright	**67**	65	2%
N W Hollingworth	**30**	29	2%
N T Gourlay	**30**	29	2%

The basis for determining annual bonus payments for the 2020 financial year is set out in the future policy table in the directors' remuneration report on pages 20 to 21. 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 2020 annual report of remuneration.

Consideration by the directors of matters relating to directors' remuneration

The Committee

The Committee is responsible for reviewing and recommending the framework and policy for remuneration of the executive directors and of senior management. The Committee's terms of reference are available on the Company's website. The members of the Committee during the financial year were 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 four 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 2019

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 2019 financial year and determining the amounts that may potentially be payable.

Statement of voting at 2018 Annual General Meeting

At the last Annual General Meeting, votes on the Directors' Remuneration Report were cast as follows:

Votes for	%	Votes Against	%	Abstentions	%
2,649,737	99.86	3,643	0.14	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 2017 Annual General Meeting. Votes at that meeting on the Directors' Remuneration policy were cast as follows:

Votes for	%	Votes Against	%	Abstentions	%
2,894,212	99.81	1,971	0.07	3,513	0.12

By order of the Board

N W Hollingworth
Chairman of the Remuneration Committee
31 May 2019

Report of the Directors

The directors present their report and financial statements for the year ended 31 March 2019.

Results and dividends

The results of the Company for the year are set out in the financial statements on pages 46 to 50. An interim dividend of 7.5p per share was paid to shareholders on 7 January 2019. The Board is recommending a final dividend of 15.0 pence per share (2018: 15.0 pence) making a total of 22.5 pence per share (2018: 22.5 pence). Total ordinary dividends paid in the year amounted to £606,000. Dividends paid in the year to preference shareholders were £72,000 (2018: £72,000) 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 6.

Financial risk management

Consideration of principal risks and uncertainties is included on pages 8 and 9 of the Strategic Report including the management of financial risks. These are also outlined further in note 18.

Directors

The directors who served during the year, all of whom remain in office at 31 March 2019 are set out below:

Mr R C Wright PG Dip FIMI FCIM was appointed Chairman on 26 July 2012. He joined the Board as a non-executive director and Chairman-elect on 1 November 2011. He has previously held senior executive roles with the Ford Motor Company including Director, European Operations at Jaguar Cars Limited, Director of Sales, Ford Motor Company Limited and President/Managing Director of Ford Belgium NV. He 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, part of HM Treasury. He is currently an advisor to a number of privately held companies including Chairman of Thames River Moorings Limited.

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. From 2005 to 2016 he was Group Chief Executive of Austin Reed Group Limited, formerly Austin Reed plc which de-listed from the London Stock Exchange in January 2007, having previously held senior management roles within Arcadia Group plc, Etam plc and The Burton Group plc. He is currently an advisor to a number of privately held companies.

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.

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 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 several 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 from several not-for-profit organisations.

Interests in shares

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

	As at 31 March 2019			As at 31 March 2018		
	Ord	11% Pref	7% Pref	Ord	11% Pref	7% Pref
R C Wright	**7,500**	**–**	**–**	5,312	–	–
S G M Caffyn	**51,988**	**1,600**	**200**	51,988	1,600	200
M Warren	**5,000**	**–**	**–**	5,000	–	–
S J Caffyn	**39,232**	**1,655**	**–**	39,232	1,655	–
N W Hollingworth	**2,500**	**–**	**–**	2,500	–	–
N T Gourlay	**4,893**	**–**	**–**	3,000	–	–

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 2019 was £3.95 and the range of market prices during the year was £3.51 to £4.49.

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. 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' fees.

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 10.

Share capital

As at 31 March 2019, the issued share capital of the Company comprised Ordinary Shares of 50p each and three classes of preference share namely 7% 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 22 to the financial statements. 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% 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.

Report of the Directors (continued)

Report of the Directors

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 2019 was as follows:

	£'000	%
Authorised		
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

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

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

Every member present in person at a general meeting has, on the calling of a poll, one vote for every Ordinary Share of 50p nominal amount of share capital of which he is the holder and one vote for every 6% Cumulative Second Preference Share of 10p nominal amount of share capital of which he is the holder. In the case of joint holders of a share, the vote of the member whose name stands first in the register of members is accepted to the exclusion of any vote tendered by any other joint holder. Unless the Board decides otherwise, a shareholder may not vote at any general or class meeting or exercise any rights in relation to meetings while any amount of money relating to his shares remains outstanding.

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

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

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

Sharesave scheme

The Company encourages employee share ownership through the provision of periodic Save As You Earn schemes, administered by the Yorkshire Building Society. A scheme was launched in July 2017 with share options for 127,969 Ordinary shares being subscribed to which are exercisable upon expiry of the three-year savings contract at a pre-determined price of £3.99 per share. At 31 March 2019, the number of share options outstanding was 106,330. The scheme matures in September 2020.

Significant direct or indirect shareholdings

At 30 May 2019, 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	%
Maland Pension Fund (Pershing Nom Ltd RKCLT)	304,750	11.31
Charles Stanley	133,750	4.96
HSBC Republic Bank Suisse SA	128,349	4.76
Caffyns Pension Fund	125,570	4.66
A P Caffyn	108,336	4.02
A W Caffyn/Mrs B Lees	107,409	3.98
K E Caffyn	104,804	3.89
M I Caffyn	103,495	3.84
Armstrong Investments (Nortrust Nominees)	90,000	3.34
GAM Exempt UK Opportunities Fund	88,267	3.27

Greenhouse gas emissions

Information on greenhouse gas emissions is set out in the Strategic Report on page 11.

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 2019. 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 2019 was £11.2 million (2018: £10.3 million). In accordance with the Company's accounting policies, this surplus has not been incorporated into the accounts.

Auditor

Grant Thornton UK LLP has been the external auditor since 1964. In accordance with the auditor independence requirements of the revised Ethical Standard effective 11 June 2016, Grant Thornton UK LLP's appointment as auditor would not be able to be extended beyond the year ending 31 March 2021. In the light of this length of tenure, the Committee instigated an audit tender process following the year-end and it is anticipated that the appointment of a replacement external auditor will be recommended to shareholders at the Annual General Meeting.

By order of the Board

S J Caffyn
Company Secretary
31 May 2019

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
31 May 2019

M Warren
Finance Director

Report of the Independent Auditor

Independent auditor's report to the members of Caffyns plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Caffyns plc (the "parent Company" or the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2019, which comprise the Group and Company Income Statement, the Group and Company Statement of Comprehensive Income, the Group and Company Statements of Financial Position, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statement, the Principal Accounting Policies and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 2019 and of the Group's and the parent Company's loss for the year then ended;
- have been properly prepared in accordance with 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 8 and 9 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation, set out on page 18 of 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 directors' statement, set out on page 17 of the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' 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;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation, set out on pages 17 and 18 of 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.

Report of the Independent Auditor (continued)

Overview of our audit approach

- Overall materiality: £125,000.
- Key audit matters were identified as:
  - revenue recognition and cut-off;
  - impairment of non-current assets; and
  - valuation of defined benefit pension scheme liability.
- We performed full scope audit procedures on the financial statements of the operating company, Caffyns plc, and on the financial information of the three dormant subsidiary undertakings, all located in the United Kingdom.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group and Company	How the matter was addressed in the audit – Group and Company
Revenue recognition and cut-off Under ISA (UK) 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 and given the high value of transactions around the year-end. We identified this risk in relation to vehicle sales. We therefore identified revenue recognition and cut-off as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • an assessment of whether the Group's revenue recognition policies in place complied with International Financial Reporting Standard (IFRS) 15 "Revenue from Contracts with Customers" and ensuring its consistent application; • transactional testing of a sample of revenues, to determine whether the revenue recognised was valid and had occurred and is recognised in accordance with the accounting policies. We verified that the vehicle had left the Group's premises prior to revenue being recognised as this is when control of the vehicle passes to the customer; • testing a sample of vehicle sales transactions near year-end 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; and • agreeing manufacturer income directly to manufacturer statements and subsequent receipts The Group's accounting policy on revenue recognition is shown under Principal Accounting Policies and related disclosures are included in note 1 to the financial statements. **Key observations** Our audit work did not identify any material misstatements concerning recognition of revenue, including the cut-off of vehicles sales.

Key Audit Matter – Group and Company	How the matter was addressed in the audit – Group and Company
Impairment of non-current assets As at 31 March 2019 the carrying amount of the net assets of the Group was more than its market capitalisation. Under International Accounting Standard (IAS) 36 "Impairment of Assets" the above represents an indication that the Group's assets may be impaired. Therefore, the directors are required to determine whether the carrying value of the Group's assets, which includes the Group's property, plant and equipment, investment property and goodwill, is impaired. IAS 36 requires assets to be tested for impairment by comparing the asset's carrying amount with its recoverable amount, with the recoverable amount being the higher of fair value less costs to sell and value in use. IAS 36 also requires assets to be tested for impairment individually, and where individual assets cannot generate cash inflows independently, IAS 36 requires the impairment tests to be conducted at the cash generating unit ("CGU") level. A CGU is defined as the smallest group of assets which can generate cash inflows independently from other assets or CGUs. To determine a fair value the directors obtained a third-party valuation of the Group's freehold premises (including the freehold land and property recognised as part of property, plant and equipment, as well as the freehold property recognised as investment property). Where necessary, the directors estimated the fair value of other property, plant and equipment assets, and estimated the likely selling costs. There is judgement in assessing the ability of assets to generate cash inflows largely independent of other assets and therefore also in the identification of appropriate CGUs. The assumptions involved in determining fair value less costs to sell and those involved in determining value in use can be highly judgemental and can impact the impairment review. We therefore identified impairment of non-current assets as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • an assessment of whether the Group's accounting policies for impairment of assets complied with IAS 36 and ensuring its consistent application; • obtaining management's assessment of relevant cash generating units (CGUs) used in the impairment calculation and comparing those to our understanding of the business units and operating structure of the Group. We performed arithmetical checks to management's model to ensure their accuracy; • agreeing property valuations used for the purposes of impairment testing to the impairment workings prepared by the Group, and verifying the expertise of the third party used; • assessing and challenging the appropriateness of inputs and valuation methodologies used by management's expert and their inherent assumptions by use of an external valuation specialist as an auditor's expert; • assessment of the valuation of properties with lower headroom based upon our knowledge of the market by use of our expert; and • performing sensitivity analysis of management's assumptions on the fair values and selling costs, projected cash inflows, discount rates and growth rates used in the impairment calculation and challenging these through consideration of the impact of alternative assumptions and comparison against past experiences. The Group's accounting policy on impairment of property is shown under Principal Accounting Policies and related disclosures are included in notes 11, 12 and 13 to the financial statements. **Key observations** Our audit work identified that the previous assessment of the definition of CGUs was not in compliance with IAS 36. This did not result in a prior year adjustment; however, it did result in a further impairment in the current year of £595,000 giving a total impairment for the year of £945,000. Our audit work has not identified any further material impairment or any material misstatement concerning impairment of non-current assets as at 31 March 2019.

Report of the Independent Auditor (continued)

Key Audit Matter – Group and Company	How the matter was addressed in the audit – Group and Company
Valuation of defined benefit pension scheme obligation The Group has a pension deficit on the statement of financial position of £8.6m (2018: £9.5m). 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 therefore identified the valuation of the defined benefit pension scheme liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • an assessment of whether the Group's accounting policy for the defined benefit pension scheme complied with IAS 19 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; • assessing the accuracy of the underlying data utilised by the actuary in the actuarial valuation, such as membership data; • agreeing asset values to third party statements received from the investment manager; and • assessing the composition of fund assets for hard to value investments or assets for which fair value cannot be determined by using observable measures or which may have required specialised valuation. The Group's accounting policy on defined benefit pension scheme is shown under Principal Accounting Policies and related disclosures are included in note 20 to the financial statements. The Audit and Risk Committee identified pensions and their valuation as an issue in its report on page 16, where the Committee also described the action that it has taken to address this issue. **Key observations** Our audit work has not identified any material misstatement of the valuation of the defined benefit pension scheme liability.

Our application of materiality

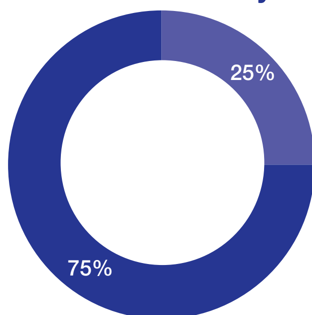
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating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

Materiality was determined as follows:

Materiality measure	Group and Company
Financial statements as a whole	£125,000 – 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 £125,000 based on a review of the financial statements, and this amount was evaluated for appropriateness by reference to a range of key benchmarks. The level of materiality for the current year is the same as the level that we determined for the year ended 31 March 2018.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.
Communication of misstatements to the audit and risk committee	£6,250 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group and Company



Tolerance for potential uncorrected misstatements

Performance materiality

Report of the Independent Auditor (continued)

An overview of the scope of our audit

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 2019 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 process, assessed the work undertaken by the internal audit function on controls relevant to our risk assessment, obtained an understanding of 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 classes of transactions, account 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 audit procedures on the financial statements of the operating Company Caffyns plc and on the financial information of the three dormant subsidiary undertakings.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of fraud, including irregularities and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Group and Company and industry in which they operate. We determined that the following laws and regulations were most significant: IFRS, Companies Act 2006, UK Corporate governance code, and taxation laws.
- We understood how the Group and Company are complying with those legal and regulatory frameworks by, making enquiries to the management, internal auditors, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Group's and Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
  - challenging assumptions and judgements made by management in its significant accounting estimates; and
  - identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 36 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit and Risk Committee reporting set out on pages 15 and 16 – the section describing the work of the audit and risk committee does not appropriately address matters communicated by us to the audit and risk committee; or
- Directors' statement of compliance with the UK Corporate Governance Code set out on page 13 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Our opinions on other matters prescribed by the Companies Act 2006 are 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 the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports 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

Report of the Independent Auditor (continued)

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

In the light of the knowledge and understanding of the Group and the 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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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 corporate governance statement has not been prepared by the parent Company.

Responsibilities of directors for the financial statements

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the Audit and Risk Committee in 1964 to audit the financial statements for the year ending 31 March 1964 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 55 years, covering the years ending 31 March 1964 to 31 March 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent Company and we remain independent of the Group and the parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report

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.

Christian Heeger BSc FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Gatwick
31 May 2019

Income Statement

for the year ended 31 March 2019

Group and Company

	Note	2019 £'000	Restated 2018 £'000
Revenue	1	**209,246**	215,868
Cost of sales		**(183,317)**	(191,638)
Gross profit		**25,929**	24,230
Operating expenses			
Distribution costs		**(15,913)**	(15,601)
Administration expenses		**(9,843)**	(6,951)
Operating profit before other income		**173**	1,678
Other income (net)	4	**802**	624
Operating profit		**975**	2,302
Operating profit before non-underlying items		**2,626**	2,325
Non-underlying items within operating profit	2	**(1,651)**	(23)
Operating profit	3	**975**	2,302
Finance expense	6	**(1,181)**	(935)
Finance expense on pension scheme	7	**(222)**	(202)
Net finance expense		**(1,403)**	(1,137)
(Loss)/profit before taxation		**(428)**	1,165
Profit before tax and non-underlying items		**1,445**	1,390
Non-underlying items within operating profit	2	**(1,651)**	(23)
Non-underlying items within finance expense on pension scheme	2	**(222)**	(202)
(Loss)/profit before taxation		**(428)**	1,165
Taxation	8	**(138)**	(135)
(Loss)/profit for the year		**(566)**	1,030
(Deficit)/earnings per share			
Basic	9	**(21.0)p**	38.2p
Diluted	9	**(21.0)p**	38.1p
Underlying earnings per share			
Basic	9	**35.3p**	45.6p
Diluted	9	**35.3p**	45.5p

The Revenue and Cost of sales for the Company and the Group for the prior year has been restated. This restatement arose as a result of commissions received from finance companies, which previously were incorrectly treated as a reduction to Cost of sales. These commissions are now reported as revenue and the prior year amounts have been reclassified accordingly. The reclassification had no impact on Gross profit.

See accompanying notes to the financial statements.

Statement of Comprehensive Income

for the year ended 31 March 2019

Group and Company

	Note	2019 £'000	2018 £'000
(Loss)/profit for the year		**(566)**	1,030
Items that will never be reclassified to profit and loss:			
Remeasurement of net defined benefit liability	20	**1,510**	(1,048)
Deferred tax on remeasurement	21	**(257)**	178
Total other comprehensive expense, net of taxation		**1,253**	(870)
Total comprehensive income for the year		**687**	160

See accompanying notes to the financial statements.

Statements of Financial Position

at 31 March 2019

	Note	Group 2019 £'000	Group 2018 £'000	Restated Group 2017 £'000	Company 2019 £'000	Company 2018 £'000	Restated Company 2017 £'000
Non-current assets							
Property, plant and equipment	12	**39,225**	40,064	35,623	**39,225**	40,064	35,623
Investment properties	13	**8,169**	6,893	6,986	**8,169**	6,893	6,986
Goodwill	11	**286**	286	286	**286**	286	286
Deferred tax asset	21	**–**	112	–	**–**	112	–
Investment in subsidiary undertakings	14	**–**	–	–	**250**	250	250
		47,680	47,355	42,895	**47,930**	47,605	43,145
Current assets							
Inventories	15	**34,468**	30,398	29,904	**34,468**	30,398	29,904
Trade and other receivables	16	**8,796**	10,191	7,838	**8,796**	10,191	7,838
Current tax receivable		**–**	60	–	**–**	60	–
Cash and cash equivalents		**3,908**	3,375	2,321	**3,908**	3,375	2,321
		47,172	44,024	40,063	**47,172**	44,024	40,063
Total assets		**94,852**	91,379	82,958	**95,102**	91,629	83,208
Current liabilities							
Interest bearing overdrafts, loans and borrowings	17	**4,875**	3,875	500	**4,875**	3,875	500
Trade and other payables	19	**39,886**	35,782	34,179	**40,136**	36,032	34,429
Current tax payable		**103**	–	197	**103**	–	197
		44,864	39,657	34,876	**45,114**	39,907	35,126
Net current assets		**2,308**	4,367	5,187	**2,058**	4,117	4,937
Non-current liabilities							
Interest bearing loans and borrowings	17	**12,625**	13,500	10,375	**12,625**	13,500	10,375
Preference shares	22	**812**	812	812	**812**	812	812
Deferred tax liability	21	**–**	–	15	**–**	–	15
Retirement benefit obligations	20	**8,576**	9,497	8,554	**8,576**	9,497	8,554
		22,013	23,809	19,756	**22,013**	23,809	19,756
Total liabilities		**66,877**	63,466	54,632	**67,127**	63,716	54,882
Net assets		**27,975**	27,913	28,326	**27,975**	27,913	28,326
Capital and reserves							
Share capital	22	**1,439**	1,439	1,439	**1,439**	1,439	1,439
Share premium account		**272**	272	272	**272**	272	272
Capital redemption reserve		**707**	707	707	**707**	707	707
Non-distributable reserve		**1,724**	1,724	1,724	**1,724**	1,724	1,724
Retained earnings		**23,833**	23,771	24,184	**23,833**	23,771	24,184
Total equity attributable to shareholders of Caffyns plc		**27,975**	27,913	28,326	**27,975**	27,913	28,326

The financial statements were approved by the board of directors and authorised for issue on 31 May 2019 and were signed on its behalf by:

R C Wright
Chairman
31 May 2019

M Warren
Director

See accompanying notes to the financial statements.

Company number: 105664

Statement of Changes in Equity

for the year ended 31 March 2019

Group and Company

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2018, as previously stated	1,439	272	707	1,724	22,981	27,123
Correction to deferred tax liability	–	–	–	–	790	790
Change in accounting policy	–	–	–	–	(75)	(75)
At 1 April 2018, restated	1,439	272	707	1,724	23,696	27,838
Total comprehensive income						
Loss for the year	–	–	–	–	(566)	(566)
Other comprehensive income	–	–	–	–	1,253	1,253
Total comprehensive income for the year	–	–	–	–	687	687
Transactions with owners:						
Dividends	–	–	–	–	(606)	(606)
Share-based payment	–	–	–	–	56	56
At 31 March 2019	**1,439**	**272**	**707**	**1,724**	**23,833**	**27,975**

The correction to the opening deferred tax liability is detailed in note 21 Deferred Tax.

The application of IFRS 15 led to an adjustment to the opening retained earnings of a reduction of £75,000.

for the year ended 31 March 2018

Group and Company

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2017	1,439	272	707	1,724	23,394	27,536
Correction to deferred tax liability	–	–	–	–	790	790
At 1 April 2017, restated	1,439	272	707	1,724	24,184	28,326
Total comprehensive income						
Profit for the year	–	–	–	–	1,030	1,030
Other comprehensive expense	–	–	–	–	(870)	(870)
Total comprehensive income for the year	–	–	–	–	160	160
Transactions with owners:						
Dividends	–	–	–	–	(606)	(606)
Share-based payment	–	–	–	–	33	33
At 31 March 2018	1,439	272	707	1,724	23,771	27,913

Cash Flow Statement

for the year ended 31 March 2019

Group and Company

	Note	2019 £'000	2018 £'000
Net cash inflow from operating activities	24	**3,759**	662
Investing activities			
Proceeds on disposal of property, plant and equipment		**10**	43
Purchases of property, plant and equipment and investment property		**(2,755)**	(5,545)
Net cash outflow from investing activities		**(2,745)**	(5,502)
Financing activities			
Secured loans repaid		**(875)**	(8,000)
Secured loans received		**–**	11,500
Dividends paid		**(606)**	(606)
Net cash (outflow)/inflow from financing activities		**(1,481)**	2,894
Net decrease in cash and cash equivalents		**(467)**	(1,946)
Cash and cash equivalents at beginning of year		**375**	2,321
Cash and cash equivalents at end of year		**(92)**	375

	2019 £'000	2018 £'000
Cash and cash equivalents	**3,908**	3,375
Bank overdraft	**(4,000)**	(3,000)
Net cash and cash equivalents	**(92)**	375

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 30.

New and revised standards

The Group adopted IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" with effect from 1 April 2018.

IFRS 9 "Financial Instruments" introduced extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduced a new "expected credit loss" model for the impairment of financial assets. IFRS 9 also provided new guidance on the application of hedge accounting. The impairment model required recognition for any expected credit losses rather than being restricted to only those that have been incurred. No significant changes arose to receivable balances through adopting IFRS 9.

IFRS 15 "Revenue from Contracts with Customers" presented new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related interpretations. The new standard established a control-based revenue recognition model and provided additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangement with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. The Company chose to implement the new standard through the recognition of the cumulative effect of the retrospective application of the new standard as at the beginning of the period of initial application on 1 April 2018, with no restatement of comparative periods.

The core principle of IFRS 15 is that an entity should recognise its revenue at the point in which the transfer of promised goods or services to customers is passed in exchange for consideration that the entity expects to receive in exchange for those goods and services.

A full impact assessment of the standard was undertaken, and it was determined that revenue recognition remained consistent with the previous accounting policy with the exception of the income generated through commissions earned through the sale of finance agreements to purchase vehicles.

The Company recognises finance commission income upon the sale of finance policies sold to customers to facilitate their vehicle purchase. In this instance, the Company is acting as an agent for various finance houses and the income is recognised when the customer receives the product. An adjustment is made to the transaction price to constrain the variable amount of consideration associated with finance commissions, in order to ensure that revenue is recognised only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This adjustment to constrain variable consideration represents a difference in the Group's accounting policy under IFRS 15 as compared to its previous revenue recognition policy under IAS 18. The impact of adopting and implementing IFRS 15 did not have a material effect on the Company's revenue recognition.

Principal Accounting Policies (continued)

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 to existing standards have been published by the IASB that are not yet effective and, in some cases, have not yet been adopted by the EU:

- IFRS 16 “Leases”;
- IFRS 17 “Insurance contracts”;
- IFRS 2 (amendments) “Classification and measurement of share-based payment transactions”;
- IFRS 4 (amendments) applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance contracts”;
- IAS 40 (amendments) “Transfers of investment property”;
- IFRS 10 and IAS 28 (amendments) “Sale or contribution of assets between an investor and its associate or joint venture”; and
- IFRIC 23 “Uncertainty over income tax treatments”.

IFRS 16, which is replacing IAS 17 and three related Interpretations, becomes effective for accounting periods beginning on or after 1 January 2019. The new Standard will therefore be implemented by the Company in its next financial year ending 31 March 2020. The new Standard has completed the IASB’s long-running project to overhaul lease accounting and requires leases to be recorded on the statement of financial position in the form of a right-of-use asset and a lease liability. The right-of-use asset is initially measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at present value of the future lease payments that are not paid at that date. This value is adjusted for interest and lease payments, as well as the impact of any lease modifications.

The Company predominantly owns the freeholds of the properties from which it operates but, at the date of implementation of the Standard, had two properties subject to operating leases where it operates as a lessee. Upon adopting IFRS 16, these leases are expected to be recognised as right-of-use assets with a corresponding lease liability. The directors have completed an assessment and anticipate that the value of assets, and liabilities, in the Statement of Financial Position will increase by £2.0 million as a result of implementing the Standard. The Company intends to implement the Standard by adjusting the opening position at 1 April 2019 for the cumulative catch-up position. The directors do not expect the implementation of the Standard to have a significant impact on the Company future reported earnings.

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 and term loans. At the year-end, the medium-term banking facilities included a term loan with an outstanding balance of £7.1 million and a revolving credit facility of £7.5 million from HSBC, its primary bankers, both facilities being renewable in March 2023, and a short-term overdraft facility of £3.5 million which is renewed annually in August. The Company also has a 10-year term loan from VW Bank with a balance outstanding at 31 March 2018 of £2.4 million which is repayable to November 2023 and a short-term overdraft facility of £7.0 million which is renewed annually in August. In the opinion of the directors, there is a reasonable expectation that all facilities will be renewed at their scheduled expiry dates. The term loan and revolving credit facilities provided by HSBC include certain covenant tests which were passed at 31 March 2019. 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 8 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

The Company has adopted IFRS 15 "Revenue from Contracts with Customers", which came into effect on 1 April 2018 and replaced IAS 18 "Revenue". The Group's previously stated revenue recognition policy, which outlined the Company's compliance with IAS 18, and was applied during the year ended 31 March 2018, was as follows:

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. Commission income from the sale of finance-related products is recognised at the point of sale of the associated goods.

The Group's revised revenue recognition policy, effective for the year ended 31 March 2019 is as follows:

Revenue generated from a contract for the sale of goods is recognised on delivery when all promises have been fulfilled to the customer such as the supply of a specific vehicle. If the customer has added various accessory products to their order, the Company's promise is fulfilled by supplying this onto the vehicle when they take delivery of the vehicle. Where the Company acts as an agent on behalf of a principal in relation to the sale of a new car, the associated income is recognised within revenue in the period in which the product is sold.

Finance commissions are earned from the Finance House that is providing a finance arrangement to a consumer buying the vehicle. In this regard, the Company's customer is considered to be the Finance House, rather than the end user of the vehicle. Income derived from such commissions is recognised within revenue on completion of the arranging of the various products (i.e. at the point at which control passes to the customer).

Principal Accounting Policies (continued)

For servicing work, the Company is promising to complete the work in accordance to the contract (or job card). This obligation is satisfied when the customer takes collection of their vehicle on completion of the work. If a customer takes out a service plan, the Group has a future obligation to complete agreed work over a set period of time – these obligations are only completed in full once the service plan has expired. The obligation of supplying vehicle parts to customers is also satisfied when the customer takes delivery of the goods. Where the Company sells a service plan alongside a motor vehicle, the service element is distinct from the vehicle sale and is subject to a fixed and determinable transaction price. Each individual service included within the service plan is considered distinct and revenue is recognised at a point in time when the services have been carried out.

Supplier income

The Company receives income from brand partners and other suppliers. These are generally based on achieving certain objectives such as specific sales volumes and maintaining agreed operational standards. This supplier income received is recognised as a deduction from cost of sales at the point when it is reasonably certain that the targets have been achieved for the relevant period and when income can be measured reliably based on the terms of each relevant supplier agreement. Supplier income that has been earned but not invoiced at the balance sheet date is recognised in other receivables.

Manufacturer bonuses are recognised as income to gross margin but not within revenue

Non-underlying items

Non-underlying items are those items that are unusual because of their size, nature or incidence. Management consider 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 inability of management to influence the underlying assumptions from which the charge is derived.

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.

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.

Principal Accounting Policies (continued)

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.

The 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 inflows 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 inflows 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 inflows 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 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.

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 and Preference Share capital purchased by the Company in prior years and cancelled.

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

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.

Principal Accounting Policies (continued)

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.

Financial instruments

Recognition, initial measurement and re-recognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

The only types of financial assets held by the Group are financial assets at amortised cost.

Financial assets at amortised cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all receivables. The expected loss rates are based on the payment profile of sales over 36 months before 31 March 2019, or 1 April 2018 respectively, and the corresponding historical credit losses expected in this period. The Company also considers future expected credit losses due to circumstances in addition to historical loss rates.

On that basis no loss allowance was identified as at 31 March 2019 or 1 April 2018.

Notes to the Financial Statements

for the year ended 31 March 2019

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 12. 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:

	2019 £'000	Restated 2018 £'000
Sale of goods	197,888	204,902
Rendering of services	11,358	10,966
	209,246	215,868

Sales of motor vehicles, parts and aftersales services

The Group's full revenue recognition policy is set out in the section on "Principal Accounting Policies" under the heading "Revenue recognition". The Group generates revenue through the sale of new and used motor vehicles (together comprising "Sale of goods" as shown above), and through the provision of aftersales services in the form of vehicle servicing, maintenance and repairs and introducing customers to finance companies (together comprising "Rendering of services" as shown above).

The Group recognises revenue from the sale of new and used motor vehicles when a customer takes possession of the vehicle, at which point they have an obligation to pay in full and as such control is considered to transfer at this point. The Group typically receives cash equal to the invoice amount for most direct retail sales to consumers at the time the consumer takes possession of the vehicle. When the consumer has taken out a finance agreement to purchase the vehicle, the Group receives payment from the finance company at the time the consumer takes possession of the vehicle. Payment terms on sales to corporate customers typically range from seven to ten days. The Group recognises revenue from the provision of aftersales services when the service has been completed, at which point customers have an obligation to pay in full. The Group typically receives cash equal to the invoice amount for most direct retail sales to consumers at the time the service has been completed. Payment terms on sales to corporate customers typically range from 30 to 60 days.

All revenue recognised in the income statement is from contracts with customers and no other revenue has been recognised. No impaired losses have been recognised on any receivables or contract assets arising from a contract with a customer.

Due to the nature of the Group's contractual relationship with customers and the nature of the services provided there are no timing differences between revenue recognised in the income statement and trade receivables being recognised in the statement of financial position.

There have been no significant judgements regarding the timing of transactions or the associated transaction price.

The transaction price is set out in individual contractual agreements and there is a range of prices based on the types of goods and services offered. There are no variable pricing considerations.

Contract liabilities

Where the Group receives an amount of consideration in advance of completion of performance obligations under a contract with a customer, the value of the advance consideration is initially recognised as a contact liability in liabilities. Revenue is subsequently recognised as the performance obligations are completed over the period of the contract (i.e. as control is passed to the customer). Contract liabilities are presented within trade and other payables in the Consolidated Balance Sheet and disclosed in note 19 "Trade and other payables".

Contract costs

The Group applies the practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

Notes to the Financial Statements

for the year ended 31 March 2019

1. General information (continued)

Transaction price allocation to remaining performance obligations

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Segmental reporting

Based upon the management information reported to the chief operating decision maker, the Chief Executive, in the opinion of the directors, the Company has one reportable segment. The Company physically operates and is managed from individual dealership sites although strategic and investment decisions are made based on dealership groupings or market territories. The Company's individual dealerships represent a range of manufacturers but are considered to have similar economic characteristics, such as margin structures, 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

	2019 £'000	2018 £'000
Net (loss)/profit on disposal of property, plant and equipment	(6)	31
Other income, net	(6)	31
Within operating expenses:		
Service cost on pension scheme	(27)	(34)
VAT claim recovery, net of compliance costs	315	–
VAT compliance costs	(164)	(80)
Liquidation distribution received	27	–
Equalisation of Guaranteed Minimum Pensions	(851)	–
Property impairments	(945)	–
Property lease dilapidations	–	60
	(1,645)	(54)
Non-underlying items within operating profit	(1,651)	(23)
Net finance expense on pension scheme	(222)	(202)
Non-underlying items within net finance income	(222)	(202)
Total non-underlying items before taxation	(1,873)	(225)
Taxation credit on non-underlying items	356	26
Total non-underlying items after taxation	(1,517)	(199)

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

The Company recovered a sum of £334,000 in the year in respect of a VAT claim submitted to HMRC for VAT incorrectly accounted for on dealer contributions towards vehicle sales between 2012 and 2017. Net of costs of recovery, a credit of £315,000 has been recognised to profit.

In the period year, the Company received a periodic VAT inspection from HM Revenue & Customs which identified certain items of non-compliance with relevant legislation. A sum of £20,000 was settled in that prior period and a further provision of £60,000 was also taken in the prior year against profits to allow for items still to be resolved. In the current year, a further sum of £164,000 has been charged to cover all items resolved but not settled at the year end.

The Company received a distribution of £27,000 in the year from the liquidators of MG Rover Group Limited.

A legal precedent was set during the year regarding the issue of equalisation of Guaranteed Minimum Pensions relating to the members of the Company's defined-benefit pension scheme. Accordingly, a charge of £851,000 has been taken against profits as a non-underlying item as the best estimate of the cost of equalising pension entitlements between men and women.

2. Non-underlying items (continued)

The Company has impaired the carrying value of two freehold properties by a total of £945,000 in the year following advice from its independent valuer, CBRE Limited (see notes 12 and 13).

In the year ended 31 March 2017, the Company notified to its landlord its intention to exercise a break clause of its lease for a site in Tonbridge and made a provision of £149,000 for remedial work on the property and professional fees associated with the break in those financial statement. In the prior year, in June 2017, the Company duly exercised the break clause and negotiated a total cost for the remedial work on the property of £80,000 with a further £9,000 incurred in associated professional fees in the year. The remaining provision held of £60,000 was credited to operating expenses as a non-underlying item.

3. Operating profit

Operating profit has been arrived at after charging/(crediting):	2019 £'000	2018 £'000
Employee benefit expense (see note 5)	16,366	14,824
Net rental income	(523)	(593)
Depreciation of property, plant, equipment and investment property		
– owned assets	1,356	1,185
Impairments of property, plant, equipment	945	–
Net loss/(profit) on disposal of property, plant and equipment	6	(31)
Operating lease rentals payable – land and buildings	500	496
Operating lease rentals receivable – land and buildings	(708)	(789)

Operating profit has been arrived at after charging:	2019 £'000	2018 £'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:	76	74
– other services pursuant to legislation – review of interim financial statements	12	12
– in respect of the audit of the Caffyns plc Occupational Pension Scheme	11	11
	99	97

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

The Company refers to underlying profit and underlying EBITDA as being key alternative performance measures when considering the results for the year. This is reconciled from the Company's result for the year as follows:

	2019 £'000	2018 £'000
(Loss)/profit for the year	(566)	1,030
Tax charge (note 8)	138	135
(Loss)/profit before tax	(428)	1,165
Add back: Net finance expense (notes 6 and 7)	1,403	1,137
Add back: Non-underlying items within operating profit (note 2)	1,651	23
Add back: Depreciation charged on property, plant and equipment and investment properties (notes 11 and 12)	1,356	1,185
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	3,982	3,510

Notes to the Financial Statements

for the year ended 31 March 2019

4. Other income

	2019 £'000	2018 £'000
Rent receivable	523	593
Compensation claim received	285	–
(Loss)/profit on disposal of tangible fixed assets	(6)	31
Other income	802	624

During the year, the Company agreed a settlement of £300,000 regarding a claim for trading losses caused by disruption from alterations and repairs required to one of its freehold premises. After allowing for professional fees and costs, a credit of £285,000 was included in Other Income in the period.

5. Employee benefit expense

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

	2019 Number	2018 Number
Sales	130	124
Aftersales	208	204
Administration	83	85
	421	413

Employee benefit expense during the year including directors amounted to:	2019 £'000	2018 £'000
Wages and salaries	13,723	13,141
Social security costs	1,336	1,290
Redundancy costs	1	11
Contributions to defined contribution plans	206	146
Cost of equalisation of Guaranteed Minimum Pensions (see notes 2 and 20)	851	–
Other pension costs (see note 20)	249	236
	16,366	14,824

Directors' emoluments were:	2019 £'000	2018 £'000
Salaries and short-term employee benefits	738	628

Details of the directors' remuneration are provided in the Directors' Remuneration Report on pages 19 to 31.

Key management compensation	2019 £'000	2018 £'000
Salaries and short-term employee benefits	1,221	1,158

Key management personnel include the directors and other key operational staff.

6. Finance expense

	2019 £'000	2018 £'000
Interest payable on bank borrowings	356	186
Vehicle stocking plan interest	648	591
Financing costs amortised	105	86
Preference dividends (see note 10)	72	72
Finance expense	1,181	935

Interest payable on bank borrowings is after capitalising interest on additions to freehold properties of £55,000 at a rate of 2.6% (2018: £127,000; rate: 2.5%) (see note 12).

7. Finance expense on pension scheme

	2019 £'000	2018 £'000
Defined benefit pension scheme net finance expense (see note 20)	222	202

8. Tax

	2019 £'000	2018 £'000
Current tax		
UK corporation tax	(261)	(227)
Adjustments recognised in the period for current tax of prior periods	(22)	143
Total charge	(283)	(84)
Deferred tax (see note 21)		
Origination and reversal of temporary differences	21	1
Adjustments recognised in the period for deferred tax of prior periods	124	(52)
Total credit/(charge)	145	(51)
Total tax charged in the Income Statement	(138)	(135)

The tax credit/(charge) arises as follows:	2019 £'000	2018 £'000
On normal trading	(494)	(161)
On Non-underlying items (see note 2)	356	26
	(138)	(135)

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

	2019 £'000	2018 £'000
(Loss)/profit before tax	(428)	1,165
Tax at the UK corporation tax rate of 19% (2018: 19%)	81	(221)
Tax effect of expenses that are not deductible in determining taxable profit	(12)	(25)
Difference between accounts profits and taxable profits on capital asset disposals	(1)	(2)
Other differences related primarily to the revaluation of the pension scheme and from property impairments	(173)	(76)
Movement in rolled over and held over gains	166	98
Impairment of Advanced Corporation Tax asset	(301)	–
Adjustment to tax charge in respect of prior periods	102	91
Tax charge for the year	(138)	(135)

Notes to the Financial Statements

for the year ended 31 March 2019

8. Tax (continued)

The "Adjustments to the current year tax charge in respect of prior periods", as presented in the table above, relates to the tax treatment of the fixed asset additions for the Company's development at Angering. In the prior year, the current year tax charge assumed 25% of the Angmering site costs would be qualifying for capital allowances, but the difference in the accounting and tax base cost was not taken into account when calculating the deferred tax. This resulted in a deferred tax adjustment of £124,000 which has been shown in these financial statements within the current year tax credit, as an adjustment recognised in the period for deferred tax of prior periods.

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

	2019 £'000	2018 £'000
Total current tax charge	**(283)**	(84)
Deferred tax charge		
Credited/(charged) in Income Statement	**145**	(51)
(Charged)/credited against other comprehensive income	**(257)**	178
Total deferred tax (charge)/credit	**(112)**	127
Total tax (charge)/credit for the year	**(395)**	43

Factors affecting the future tax charge

The Company has unrelieved advance corporation tax of £1.14 million (2018: £1.14 million) which is available to be utilised against future mainstream corporation tax liabilities and is accounted for in deferred tax (see note 21).

The tax charge is impacted by the effect of non-deductible expenses including the impairment of property, plant and equipment, the charge for the equalisation of Guaranteed Minimum Pensions of members of the defined-benefit pension scheme and non-qualifying depreciation.

Prior year adjustment to deferred tax liability

The Company identified errors in both its calculation and methodology of its potential deferred tax liability on held-over gains from property disposals and from accelerated capital allowances in prior accounting periods which had resulted in an overstatement of its deferred tax liability by £790,000 as at 1 April 2017. A prior year adjustment to the previously stated values has been made in these Financial Statements to correct this error. The error impacted the deferred tax liability balance at 1 April 2017 and 31 March 2018 by the same amount. As a result, there is no impact on the income statement for the year ended 31 March 2018.

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:

	Underlying		Basic	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
(Loss)/profit before tax	(428)	1,165	(428)	1,165
Adjustments:				
Non-underlying items (note 2)	1,873	225	–	–
Underlying profit/(loss) before tax	1,445	1,390	(428)	1,165
Taxation (note 8)	(493)	(161)	(138)	(135)
Underlying earnings/(deficit)	952	1,229	(566)	1,030
Underlying earnings/(deficit) per share (pence)	35.3p	45.6p	(21.0)p	38.2p
Diluted earnings/(deficit) per share (pence)	35.3p	45.5p	(21.0)p	38.1p

	2019 £'000	2018 £'000
Underlying earnings after tax	952	1,229
Underlying earnings per share	35.3p	45.6p
Underlying diluted earnings per share	35.3p	45.5p
Non-underlying losses after tax	(1,517)	(199)
Losses per share	(56.3)p	(7.4)p
Diluted losses per share	(56.3)p	(7.4)p
Total (deficit)/earnings	(566)	1,030
(Deficit)/earnings per share (pence)	(21.0)p	38.2p
Diluted (deficit)/earnings per share (pence)	(21.0)p	38.1p

The number of fully paid ordinary shares in circulation at the year-end was 2,694,790 (2018: 2,694,790). The weighted average shares in issue for the purposes of the earnings per share calculation were 2,694,790 (2018: 2,694,790).
The shares granted under the Company's SAYE scheme have not been treated as dilutive as the market price at 31 March 2019 of £3.95 was less than the option price of £3.99.

Notes to the Financial Statements

for the year ended 31 March 2019

10. Dividends

	2019 £'000	2018 £'000
Preference		
7% Cumulative First Preference	12	12
11% Cumulative Preference	48	48
6% Cumulative Second Preference	12	12
Included in finance expense (see note 6)	72	72
Ordinary		
Interim dividend paid in respect of the current year of 7.5p (2018: 7.5p)	202	202
Final dividend paid in respect of the March 2018 year end of 15.0p (2017: 15.0p)	404	404
	606	606

Proposed

In addition, the directors are proposing a final dividend in respect of the year ended 31 March 2019 of 15.0 pence per share which will absorb £404,000 of shareholders' funds (2018: 15.0 pence per share absorbing £404,000). 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.

11. Goodwill

	2019 £'000	2018 £'000
Cost		
At 1 April 2018 and 31 March 2019	481	481
Provision for impairment		
At 1 April 2018 and 31 March 2019	195	195
Carrying amounts allocated to cash generating units:		
Volkswagen, Brighton	200	200
Audi, Eastbourne	86	86
At 31 March 2019	286	286

For the purposes of the annual impairment testing, goodwill is allocated to a cash generating unit ("CGU"). Each GCU is allocated against the lowest level within the entity at which the goodwill is monitored for management purposes. Consequently, the directors recognise CGUs to be those assets attributable to individual dealerships, and the table above sets out the allocation of goodwill into the individual dealership CGUs. The carrying amount of goodwill allocated to the Volkswagen Brighton CGU is the only amount considered significant in comparison within the Group's total carrying amount of goodwill.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable and a potential impairment may be required. Impairment reviews have been performed for all CGUs for the years ended 31 March 2019 and 2018.

Valuation basis

The recoverable amount of each CGU is based on the higher of its fair value less selling costs and value in use. The fair value less selling costs of each CGU is based initially upon the market value of any property contained within it and is determined by an independent valuer as described in the note 12. Where the fair value less selling costs of a CGU indicates that an impairment may have occurred, a discounted cash flow calculation is prepared in order to assess the value in use of that CGU, involving the application of a pre-tax discount rate to the projected, risk-adjusted pre-tax cash inflows and terminal value.

11. Goodwill (continued)

Period of specific projected cash flows (Volkswagen, Brighton)

The recoverable amount of the Volkswagen, Brighton CGU is based on value in use. Value in use is calculated using cash flow projections for a five-year period from 1 April 2019 to 31 March 2024. These projections are based on the most recent budget which has been approved by the Board: the budget for the year ending 31 March 2020. They key assumptions in the most recent annual budget on which the cash flow projections are based relate to expectations of sales volumes and margins and expectations around changes in the operating cost base. These assumptions are based on past experience, adjusted to expected changes, and external sources if information. The cash flows include ongoing capital expenditure required to maintain the dealership, but exclude any growth capital expenditure projects to which the Group was not committed at the reporting date.

Growth rates, ranging from -5% (2018: 1%) to 70% (2018: 70%) have been used to forecast cash flows for a further four years beyond budget, through to 31 March 2024. These growth rates reflect the products and markets in which the CGU operates. Growth rates are internal forecasts based on both internal and external market information.

Discount rate

The cash flow projections have been discounted using a rate derived from the Group's pre-tax weighted average cost of capital adjusted for industry and market risk. The discount rate used is 12.4% (2018: 12.4%)

Terminal growth rate

The cash flows after the forecast period are extrapolated into the future over the useful economic life of the CGU using a steady or declining growth rate that it consistent with that of the product and industry. These cash flows form the basis of what is referred to as the terminal value. The growth rate to perpetuity beyond the initial budgeted cash flows applied in the value in use calculations to arrive at a terminal value is 0.5% (2018: 0.5%). Terminal growth rates are based on management's estimate of future long-term average growth rates.

Conclusion

At 31 March 2019 no impairment charge in respect of goodwill was identified (2018: no impairment charge).

Sensitivity to changes in key assumptions

Impairment testing is dependent on estimates and judgements, particularly as they relate to the forecasting of future cash flows. The outcome of the impairment test is not sensitive to reasonably possible changes in respect of the projected cash flows, the discount rate applied, nor in respect of the terminal growth rate assumed.

Basis of assessing cash generating units

In the prior year, the Group incorrectly based its impairment tests on cash generating units at a more aggregated level. This was based on an inappropriate interpretation of the requirements set out in IAS 36 "Impairment of assets", specifically in respect of the requirements to aggregate individual assets into CGUs at the lowest level at which cash inflows can be generated independently, where individual assets cannot generate cash inflows. In correcting their approach in the current period, the directors revisited the impairment tests undertaken in the prior year to assess whether an impairment charge would have arisen, had the correct basis of CGU assessment been applied in preparing the financial statements for the year ended 31 March 2018. The result of this exercise was that no impairment charge had arisen at 31 March 2018. The methodology applied and the key assumptions used in the impairment test as at 31 March 2018 are consistent with those disclosed in note 11, note 12 and note 13 in relation to Goodwill, Property, plant and equipment, and Investment properties, respectively.

Notes to the Financial Statements

for the year ended 31 March 2019

12. Property, plant and equipment

Group and Company	Freehold property £'000	Assets under construction £'000	Leasehold property £'000	Fixtures & fittings £'000	Plant & machinery £'000	Total £'000
Cost or deemed cost						
At 1 April 2017	36,199	–	690	4,800	5,308	46,997
Additions at cost	1,218	3,869	–	106	352	5,545
Disposals	(7)	–	–	(30)	(65)	(102)
At 31 March 2018	37,410	3,869	690	4,876	5,595	52,440
Cost or deemed cost						
At 1 April 2018	37,410	3,869	690	4,876	5,595	52,440
Additions at cost	–	1,567	–	635	553	2,755
Transfer to Investment Properties	(2,098)	–	–	–	–	(2,098)
Transfers	5,436	(5,436)	–	–	–	–
Disposals	–	–	–	(707)	(62)	(769)
At 31 March 2019	**40,748**	**–**	**690**	**4,804**	**6,086**	**52,328**
Accumulated depreciation						
At 1 April 2017	3,709	–	322	3,149	4,194	11,374
Charge for the year	472	–	62	353	205	1,092
Disposals	(1)	–	–	(29)	(60)	(90)
At 31 March 2018	4,180	–	384	3,473	4,339	12,376
Accumulated depreciation						
At 1 April 2018	4,180	–	384	3,473	4,339	12,376
Depreciation charge for the year	544	–	61	391	252	1,248
Impairments for the year	545	–	–	–	–	545
Transfer to Investment Properties	(314)	–	–	–	–	(314)
Disposals	–	–	–	(696)	(56)	(752)
At 31 March 2019	**4,955**	**–**	**445**	**3,168**	**4,535**	**13,103**
Net book amount						
31 March 2019	**35,793**	**–**	**245**	**1,636**	**1,551**	**39,225**
31 March 2018	33,230	3,869	306	1,403	1,256	40,064
31 March 2017	32,490	–	368	1,651	1,114	35,623

Short-term leasehold property for both the Company and the Group comprises £245,000 at net book value in the Statement of Financial Position (2018: £306,000).

Additions to freehold property includes interest capitalised of £55,000 (2018: £127,000) (see note 6).

Depreciation and impairment charges of £1,793,000 (2018: £1,092,000) in respect of Property, plant and equipment is recognised within administration expenses within the Income Statement.

In assessing the Company's CGUs for impairment, the directors base their assessment of the recoverable amount on the higher of fair value less selling costs and value in use. During the year, owing to a decline in the market value of the fixed assets at one freehold property, the fair value less selling costs of those assets declined by £545,000 to £7,963,000, and an impairment charge of £545,000 was recognised in the Income Statement, as part of Administration Expenses.

The fair value measurement of the CGU in its entirety is categorised as a Level 3 within the hierarchy set out in International Financial Reporting Standard 13 'Fair Value Measurement'. The following are key assumptions on which the directors based their determination of fair value less costs of disposal in respect of that CGU:

- Market value of buildings per square foot: £299
- Market value of site per acre: £2,187,000
- Costs of disposal: 1.5% of fair value

12. Property, Plant and equipment (continued)

Valuations

The freehold properties were revalued externally at 31 March 1995 by Herring Baker Harris, 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.

	Group and Company	
	2019	2018
Freehold property is included as follows:	**£'000**	£'000
Valuation – March 1995, less depreciation	**2,937**	3,006
At cost, less depreciation	**41,025**	37,117
Deemed cost, less depreciation at the year-end	**43,962**	40,123
At historic cost	**45,458**	38,047

The Company valued its portfolio of freehold premises as at 31 March 2019. The valuation was carried out by CBRE Limited, Chartered Surveyors, in accordance with the Royal Institution of Chartered Surveyors valuation – global and professional standards requirements. The valuation is based on existing use value which has been calculated by applying various assumptions as to tenure, letting, town planning, and the condition and repair of buildings and sites including ground and groundwater contamination. Management are satisfied that this valuation is materially accurate. The excess of the valuation over net book value as at 31 March 2019 of those sites valued was £11.2 million (2018: £10.3 million). In accordance with the Company's accounting policies, this surplus has not been incorporated into the accounts.

Depreciation is being charged on the deemed cost of freehold buildings of £42,800,000 (2018: £37,364,000). The balance relates to freehold land, which is not depreciated.

13. Investment properties

Group and Company	2019 £'000
Cost	
At 1 April 2018	7,552
Transferred from Property, plant and equipment	2,098
At 31 March 2019	**9,650**
Accumulated depreciation	
At 1 April 2018	659
Transferred from Property, plant and equipment	314
Depreciation charge for the year	108
Impairments for the year	400
At 31 March 2019	**1,481**
Net book amount:	
At 31 March 2019	**8,169**

The Company owns a freehold property which is leased out to another motor retail group, and accordingly accounts for the property as an investment property. This investment property represents the only asset included in that CGU. In assessing this property for impairment, the directors based their assessment of the recoverable amount on fair value less selling costs. During the year, owing to a decline in the market value of the investment property, the fair value less selling costs of that property declined by £400,000 to £5,269,000, and an impairment charge of £400,000 was recognised in the Income Statement, as part of Administration Expenses.

Notes to the Financial Statements

for the year ended 31 March 2019

13. Investment properties (continued)

The fair value measurement of the above CGU in its entirety is categorised as a Level 3 within the hierarchy set out in International Financial Reporting Standard 13 'Fair Value Measurement'. The valuation technique that has been used to measure the fair value less costs of disposal is consistent with that applied in respect of the Company's freehold property portfolio and is set out in note 12. The following are key assumptions on which the directors based their determination of fair value less costs of disposal in respect of that CGU:

- Market value of buildings per square foot: £211
- Market value of site per acre: £2,670,000
- Initial and reversionary yields: 6.74% and 7.0% respectively
- Costs of disposal: 1.5% of fair value

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 2019 and at 31 March 2018	**476**
Provision	
At 31 March 2019 and at 31 March 2018	**226**
Net book amounts	
At 31 March 2019 and at 31 March 2018	**250**

15. Inventories

Group and Company	**2019 £'000**	2018 £'000
Vehicles	**21,903**	20,352
Vehicles on consignment	**11,502**	9,094
Oil, spare parts and materials	**1,058**	944
Work in progress	**5**	8
	34,468	30,398

Inventories recognised as an expense during the year	**176,594**	185,206
Inventories stated at fair value less costs to sell	**957**	854
Carrying value of inventories subject to retention of title clauses	**20,789**	18,688

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 £43,000 was recognised in respect of the write down of vehicle parts inventories due to general obsolescence (2018: £16,000).

16. Trade and other receivables

Group and Company	2019 £'000	2018 £'000
Trade receivables	7,517	9,024
Allowance for doubtful debts	(2)	(4)
	7,515	9,020
Other receivables	1,281	1,171
At 31 March 2019	8,796	10,191

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 2019 trade receivables are shown net of an allowance for impairment of £2,000 (2018: £4,000). The charge recognised during the year was £4,000 (2018: £4,000).

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

	2019 £'000	2018 £'000
Not impaired:		
Neither past due nor impaired	7,465	8,990
Past due up to 3 months but not impaired	50	30
At 31 March 2019	7,515	9,020

	2019 £'000	2018 £'000
The movement in the allowance for impairment during the year was:		
At 1 April 2018	4	5
Impairment recognised in Income Statement	2	4
Utilisation	(4)	(5)
At 31 March 2019	2	4

All amounts are due within one year.

Credit risk

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

The Company's credit risk is primarily attributable to its trade receivables which are due on the earlier of the presentation of the invoice or the expiry of a credit term. 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 creditworthiness 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.

Notes to the Financial Statements

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17. Interest bearing loans and borrowings

Group and Company	2019 £'000	2018 £'000
Current liabilities		
Secured bank loans and overdrafts	4,875	3,875
Non-current liabilities		
Secured bank loans	12,625	13,500

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 £27.5 million (2018: £28.4 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		2019 Carrying value & fair value £'000	2018 Carrying value & fair value £'000
Fair value of financial assets and liabilities			
Primary financial instruments held or issued to finance the Group's operations:	Classification		
Long-term bank borrowings (note 17)	Financial liability measured at amortised cost	(12,625)	(13,500)
Bank overdraft (note 17)	Financial liability measured at amortised cost	(4,000)	(3,000)
Other short-term bank borrowings (note 17)	Financial liability measured at amortised cost	(875)	(875)
Trade and other payables (note 19)	Financial liability measured at amortised cost	(38,139)	(34,093)
Trade and other receivables (note 16)	Financial asset at amortised cost	8,796	10,191
Cash and cash equivalents	Financial asset at amortised cost	3,908	3,375
Preference share capital (note 22)	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	(38,549)	(34,858)

18. Financial instruments (continued)

As discussed within the section on Principal Accounting Policies on page 51, the Group adopted IFRS 9 with effect from 1 April 2018. The impact of applying IFRS 9 was not significant and did not result in a change to the Company's previously stated results and the measurement requirements of IFRS 9 did not result in a change to the carrying amounts of any financial assets or liabilities as previously stated.

IFRS 9 has introduced new classification requirements in respect of financial instruments, replacing the classification requirements of IAS 39. This change has affected the classification of financial assets in the current year in that Trade and other receivables balances, previously classified as "Loans and receivables" in accordance with the requirements of IAS 39, are now classified as "Financial assets at amortised cost" in accordance with the requirements of IFRS 9.

There has been no change to the classification of financial liabilities arising from the adoption of IFRS 9.

Financial risk management

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

a. Funding and liquidity risk – the risk that the Group will not be able to meet its obligations as they fall due.
b. Credit risk – the risk of financial loss to the Group on the failure of a customer or counterparty to meets its obligations as they fall due.
c. 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 while 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 while 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 £28.0 million 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 ratio of net bank loans and overdrafts to equity was 49% at 31 March 2019 (2018: 52%). Capital requirements imposed externally by the Group's bankers are that bank borrowings should not exceed 70% of the current open-market value of the Group's freehold properties which are subject to a fixed charge. The underlying pre-tax return as a proportion of equity for the year was 5.2% (2018: 5.0%).

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.

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18. Financial instruments (continued)

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 2019 the Group had undrawn floating rate borrowing facilities of £13.9 million (2018: £13.5 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.

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 £215,000 (2018: £203,000) 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 do not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of the financial asset in the Statement of Financial Position.

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

Cash and cash equivalents

	2019 Carrying value & fair value £'000	2018 Carrying value & fair value £'000
Bank balances and cash equivalents	**3,908**	3,375

18. Financial instruments (continued)

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 2019 is set out in the following table:

	Carrying value & fair value £'000	Classification	Interest classification	Interest rate range
Current: within one year or on demand				
Term loan	500	Amortised cost	Floating	FHBR* + 1.75%
Term loan	375	Amortised cost	Floating	LIBOR† + 1.75%
Trade and other payables	38,139	Amortised cost	–	–

	Carrying value & fair value £'000	Classification	Interest classification	Interest rate range
Not repayable within one year				
Term loan	1,875	Amortised cost	Floating	FHBR* + 1.75%
Term loan	6,750	Amortised cost	Floating	LIBOR† + 1.75%
Revolving credit facility	4,000	Amortised cost	Floating	LIBOR† + 1.80%
Preference share capital	812	Amortised cost	Fixed	7% to 11%

* Finance House Base Rate.

† London Interbank Offered Rate.

The maturity of non-current borrowings is as follows:

	2019 £'000	2018 £'000
Between one and two years	875	875
Between two and five years	2,500	2,625
Over five years	10,062	10,812
	13,437	14,312

Maturities include amounts drawn under revolving credit facilities which can be drawn in whole or part at any time and will continue until 2023. The maturities above therefore represent the final repayment dates for these facilities as at 31 March 2023. 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:

	2019 £'000	2018 £'000
Within 6 months	53	50
6 –12 months	53	50
More than 12 months	4,317	4,402
Contractual cash flows	4,423	4,502

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for the year ended 31 March 2019

18. Financial instruments (continued)

In the prior year, in March 2018, a new bank term loan of £7.5 million at a rate of interest of 1.75% above LIBOR was agreed with HSBC and fully drawn down. The loan has a five-year term and is repayable over 20 years. The proceeds from the new term loan were used to settle the existing revolving-credit facility that was due to expire in September 2018, which was then cancelled. At the same date, a replacement revolving credit facility of £7.5 million was agreed at a rate of interest of 1.80% above LIBOR and is due to expire in March 2023. The balance drawn as at 31 March 2019 was £4.0 million (2018: £4.0 million).

The Company also has £10.5 million of combined overdraft facilities (£13.0 million during peak periods) from HSBC and VW Bank and these annual facilities are next due for renewal in August 2019. The directors have every expectation that these facilities will be renewed based on the current discussions with the bank. The two overdrafts are at a rate of interest of 1.75% above bank base rate and 2.64% above FHBR.

The existing bank term loan from VW Bank carries a rate of interest of 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 2018. The Group has granted security by way of a general debenture over its assets and a fixed charge over certain freehold property. The total value of those assets at 31 March 2019 in the statement of financial position was £74.1 million (2018: £72.7 million). The ongoing costs associated with the bank facilities are included in finance expense (see note 6).

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

19. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	17,209	17,360
Obligations relating to consignment stock	11,502	9,094
Manufacturer funding	7,860	6,324
Social security and other taxes	1,157	1,174
Accruals	1,493	1,065
Deferred income	590	515
Other creditors	75	250
Group total	39,886	35,782
Amounts owed to Group undertakings	250	250
Company total	40,136	36,032

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 24 days (2018: 22 days).

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

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

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

19. Trade and other payables (continued)

The movements in deferred income in the year are as follows:

	£'000
At 1 April, as previously stated	515
Adjustment arising from the implementation of IFRS 15	75
At 1 April 2018, as restated	**590**
Utilisation of deferred income in the period	**(1,216)**
Income received and deferred in the period	**1,216**
At 31 March 2019	**590**

20. Retirement benefit scheme

Group and Company

Description of scheme

The Company operated a pension scheme, the Caffyns Pension Scheme ("CPS"), providing benefits based on final pensionable pay until 31 March 2006. With effect from 1 April 2006, the scheme closed to new entrants and all members in the final salary section were transferred to the career average section for future service and certain benefits were reduced. Depending upon the proportion of pensionable pay purchased, the Company contribution rates varied between 4% and 15%. The scheme closed to future accrual with effect from 1 April 2010. As part of the 2014 funding valuation it was agreed that the inflation measure used to set in deferment and in payment increases for pensions in excess of GMP would change from RPI to CPI for members (or dependants of members) who were in service on or after 1 April 1991.

The Trustees are responsible for the operation and the governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy in conjunction with the Company. 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 Rules do not impose a restriction on the level of Scheme asset that may be reported under IAS 19. The scheme has been registered with the Pensions Regulator and is subject to the scheme specific funding requirements as outlined in UK legislation. The liabilities are determined by a qualified actuary based on triennial valuations using the projected unit method. The most recent valuation was at 31 March 2017 with the next valuation due in March 2020.

Description of expected cash flows to and from the Scheme

As part of the 31 March 2017 funding valuation the Trustees and Company agreed a Recovery Plan with a view to eliminating the scheme specific funding shortfall by 31 July 2028. Over the year to 31 March 2019 the Company contributed £511,000 to fund the existing deficit of which £480,000 was in relation to deficit-reduction contributions. Based on the Recovery Plan, over the year to 31 March 2020 the Company would be expected to contribute £490,800 in relation to deficit-reduction contributions.

In addition, the Company is expected to make contributions towards risk benefits and to meet the cost of administrative expenses and Pension Protection Fund levies.

The liabilities of the Scheme are based on the current value of expected benefit payment cashflows to members of the Scheme over the next 70 to 80 years. The average duration of the liabilities is approximately 16 years.

Risks to the Scheme

The ultimate cost of the Scheme to the Company will depend upon actual future events rather than the assumptions made. Many of the assumptions made are unlikely to be borne out in practice and as such the cost of the Scheme may be higher (or lower) than disclosed. In general, the risk to the Company is that the assumptions underlying the disclosures, or the calculation of contribution requirements, are not borne out in practice and the cost to the Company is higher than expected.

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20. Retirement benefit scheme (continued)

More specifically, 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 2019 are invested by an appointed fiduciary management company. The investment in various types of asset 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.

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 rates of mortality, the discount rate used to reflect the present value of scheme liabilities, and the rate of inflation. The last actuarial valuation as at 31 March 2017 showed that the market value of the CPS assets was £90.4 million and that the actuarial value of those assets represented 87% of the value of the benefits that had accrued to employees at that date. The deficit arising of £13.5 million compared to a deficit of £9.5 million under IAS 19 at 31 March 2017 and was due to different assumptions being adopted for the triennial valuation. The payments agreed with the trustees of the CPS under the Recovery Plan were for deficit-reduction cash payments to be made in the year ended 31 March 2018 of £480,000 increasing annually from 1 April 2019 by the greater of 2.25% or the increase in shareholder dividends paid 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 2017 were updated to 31 March 2019 by Willis Towers Watson, qualified independent actuaries, for the requirements of IAS 19. Details of the actuarial assumptions are as follows:

	2019 %	2018 %
Mortality tables used: females	97% of SAPS series 2	97% of SAPS series 2
Mortality tables used: males	100% of SAPS series 2	100% of SAPS series 2
Future improvements in mortality	CMI2018 + 1.25%	CMI2017 + 1.25%
Discount rate	2.25	2.40
Inflation (CPI)	2.20	2.10
Pension increase for in-payment benefits (CPI max 5%)	2.25	2.15

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

20. Retirement benefit scheme (continued)

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%	+/- £1.4m
Rate of inflation	Increase / decrease by 0.1%	+/- £1.1m
Pension increases	Increase / decrease by 0.1%	+/- £1.0m
Mortality	Increase / decrease of 1 year	+/- £5.0m

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:

	Market Value	
	2019	2018
	£'000	£'000
LDI Fund	**18,044**	18,605
Growth Fund	**68,258**	66,800
Equity instruments	**543**	578
	86,845	85,983

In the prior year, the trustees appointed a fiduciary manager, SEI Investments (Europe), with the objective of improving the performance of the assets of the CPS.

Assets of the defined benefit pension scheme (excluding cash in the Trustee bank account) at 31 March 2019 were invested 21% (2018: 22.0%) in an LDI fund, 78% (2018: 77%) in a return enhancement growth fund and 1% (2018: 1%) in Caffyns plc shares.

In accordance with the requirements of IAS 19, the expected return on assets is based on the discount rate noted above of 2.25% and not the return on the underlying portfolio of investments. Consequently, the charge to the Income Statement for the year ending 31 March 2020 is expected to be approximately £212,000.

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

The assumptions used by the actuary are the best estimates based on market conditions chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. The IAS assumptions have been updated at 31 March 2019 and differ from those used for the earlier independent statutory actuarial valuation explained above.

Mortality assumptions

Life expectancy at age 65 (in years):	**2019 Male**	**2019 Female**	2018 Male	2018 Female
Member currently aged 65	**21.5**	**26.6**	21.9	24.1
Member currently aged 45	**22.8**	**25.1**	23.3	25.6

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

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20. Retirement benefit scheme (continued)

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

	2019 £'000	2018 £'000
At 1 April	(9,497)	(8,554)
Expense recognised in the Income Statement	(1,100)	(236)
Contributions received	511	341
Net remeasurement recognised in other comprehensive income	1,510	(1,048)
At 31 March	(8,576)	(9,497)

On 26 October 2018 the High Court issued its judgment on the Lloyds Banking Group defined-benefit pension scheme case. The judgment requires occupational pension schemes to equalise members' benefits to address the unequal effect of Guaranteed Minimum Pensions. An allowance for the liabilities to increase by 0.9% has been made for the estimated cost of Guaranteed Minimum Pension equalisation.

Total expense recognised in Income Statement

	2019 £'000	2018 £'000
Interest cost	2,240	2,269
Interest income on scheme assets	(2,018)	(2,067)
Interest – net (see note 7)	222	202
Current service cost	27	34
At 31 March	249	236

Changes in the present value of defined benefit obligation

	2019 £'000	2018 £'000
At 1 April	95,480	98,906
Service cost	27	34
Past service cost – plan amendments	851	–
Interest cost	2,240	2,269
Actuarial (gain)/losses – experience	212	1,017
– demographic assumptions	(2,226)	170
– financial assumptions	3,180	–
Benefits paid	(4,343)	(6,916)
At 31 March	95,421	95,480

Movement in the fair value of scheme assets

	2019 £'000	2018 £'000
At 1 April	85,983	90,352
Interest income	2,018	2,067
Actuarial gains – financial assumptions	2,676	139
Contributions from the Company	511	341
Benefits paid	(4,343)	(6,916)
At 31 March	86,845	85,983

20. Retirement benefit scheme (continued)

The best estimate of contributions payable by the Company in the year ending 31 March 2020 is £516,000. 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 2020 are £4.2 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 16 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 2019 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 CPS.

21. 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 2017, as previously stated	(1,334)	(1,265)	1,454	(796)	–	1,136	(805)
Prior year adjustment	306	484	–	–	–	–	790
At 1 April 2017, as restated	(1,028)	(781)	1,454	(796)	–	1,136	(15)
Remeasurement	–	–	–	(52)	–	–	(52)
(Charge)/credit to income	(84)	98	(19)	–	6	–	1
Recognised in other comprehensive income	–	–	178	–	–	–	178
At 31 March 2018	**(1,112)**	**(683)**	**1,613**	**(848)**	**6**	**1,136**	**112**
At 1 April 2018, as restated	(1,112)	(683)	1,613	(848)	6	1,136	112
Transfer	–	(848)	–	848	–	–	–
Remeasurement	267	14		–	(16)	–	265
(Charge)/credit to income	(83)	160	102	–	2	(301)	(120)
Recognised in other comprehensive income	–	–	(257)	–	–	–	(257)
At 31 March 2019	**(928)**	**(1,357)**	**1,458**	**–**	**(8)**	**835**	**–**

The Company carries a balance of surplus unrelieved advanced corporation tax ("ACT") which can be utilised to reduce corporation tax payable subject to a restriction to 19% 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 value of surplus ACT is £1,136,000 (2018: £1,136,000) and Shadow ACT is £672,000 (2017: £781,000). Given the inherent uncertainty over the timing of the utilisation of the ACT, a partial provision was taken in the year against the carrying value and management have not recognised an overall deferred tax asset. The carrying value of the ACT at 31 March 2019 is £835,000.

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21. Deferred tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and it is considered that this requirement is fulfilled. The offset amounts are as follows:

	2019 £'000	2018 £'000
Deferred tax liabilities	(2,293)	(2,643)
Deferred tax assets	2,293	2,755
	–	112

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 (2018: £Nil) available for use in future periods.

Prior year adjustment to deferred tax liability

The Company identified errors in both its calculation and methodology of its potential deferred tax liability on held-over gains from property disposals and from accelerated capital allowances in prior accounting periods which had resulted in an overstatement of its deferred tax liability by £790,000 as at 1 April 2017. A prior year adjustment to the previously stated values has been made in these Financial Statements to correct this error. The error impacted the deferred tax liability balance at 1 April 2017 and 31 March 2018 by the same amount, thus there is no impact on the income statement for the year ended 31 March 2018.

22. Called up share capital

	2019 £'000	2018 £'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 7% Cumulative First Preference Shares of £1 each	171	171
441,401 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 Ordinary Shares of 50p each	1,439	1,439
	2,251	2,251

At 1 April 2018, the Company held 2,879,298 Ordinary shares with 184,508 shares held in treasury. There has been no movement in shares during the year under review or in the prior year. The 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 2019 was £729,000 (2018: £784,000). Dividend income from, and voting rights on, the shares held in treasury have been waived.

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.

22. Called up share capital (continued)

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.

23. Share-based payments

SAYE scheme

Year of grant	Exercise price	Exercise date	Number at 31 March 2018	Issued	Cancelled	**Number at 31 March 2019**
2017	£3.99	2020	124,489	–	(18,159)	**106,330**

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 £56,000 (2018: £33,000), with an associated tax credit to the Income Statement and Equity of £11,000 (2018: £6,000).

24. Notes to the cash flow statement

Reconciliation of net debt

	2019 £'000	2018 £'000
(Loss)/profit before tax for the year	**(428)**	1,165
Adjustment for net finance expense	**1,403**	1,137
	975	2,302
Adjustments for:		
Depreciation of property, plant and equipment and investment properties	**1,356**	1,185
Impairment against property, plant and equipment and investment properties	**945**	–
Change in retirement benefit obligations	**(511)**	(341)
Loss/(profit) on disposal of property, plant and equipment	**6**	(31)
Share-based payments	**56**	33
Operating cash flows before movements in working capital	**2,827**	3,148
Increase in inventories	**(1,662)**	(494)
Decrease/(increase) in receivables	**1,395**	(2,353)
Increase in payables	**2,500**	1,637
Cash generated by operations	**5,060**	1,938
Tax paid, net of refunds	**(120)**	(341)
Interest paid	**(1,181)**	(935)
Net cash derived from operating activities	**3,759**	662

Notes to the Financial Statements

for the year ended 31 March 2019

24. Notes to the cash flow statement

Reconciliation of net debt

	Bank loans £000	Revolving credit facility £000	Net debt £000
At 1 April 2017	3,375	7,500	10,875
Repayment	(500)	(7,500)	(8,000)
Proceeds	7,500	4,000	11,500
At 31 March 2018	10,375	4,000	14,375
Current liabilities	875	–	875
Non-current liabilities	9,500	4,000	13,500
At 31 March 2018	10,375	4,000	14,375
At 1 April 2018	10,375	4,000	14,375
Repayment	(875)	–	(875)
At 31 March 2019	**9,500**	**4,000**	**13,500**
Current liabilities	875	–	875
Non-current liabilities	8,625	4,000	12,625
At 31 March 2019	**9,500**	**4,000**	**13,500**

In addition to the above, the Company held a bank overdraft, net of cash balance at bank as at 31 March 2019 of £92,000 (2018: cash balance of £375,000).

25. Related parties

The remuneration of the directors, who are key management personnel, is set out in note 5 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 19 to 31.

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 controls directly 42.6% of the voting rights of Caffyns plc. The directors and shareholders of Holdings are also beneficial holders of 585,481 Ordinary shares in Caffyns plc representing a further 12.5% 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 15.7% of the issued Ordinary share capital of the Company. Dividends of £24,388 (2018: £23,919) were paid to directors in the year.

25. Related parties (continued)

Caffyns Pension Scheme

a. Details of contributions are disclosed in note 20.

b. The Caffyns Pension Scheme held the following investments in the Company:

	Fair value	
	2019 £'000	2018 £'000
Shares held		
125,570 (2018: 125,570) Ordinary Shares of 50p each	496	502
12,862 (2018: 12,862) 11% Cumulative Preference Shares of £1 each	20	19
	516	633

c. During the year to 31 March 2019 the Company paid management fees of £290,000 (2018: £251,000) on behalf of the Caffyns Pension Scheme. These costs comprise the Pension Protection Fund levy, actuarial advice and external administration fees.

26. Operating leases

The Group as lessee

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

	2019		2016	
Group and Company	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	494	–	438	–
In two to five years	1,497	–	1,751	–
Beyond five years	263	–	451	–
	2,254	–	2,640	–

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 Company leases two properties comprising motor vehicle showrooms with workshop and parts retail facilities. None of these leases include contingent rentals. One of these leases is sub-let to a third party.

The Group as lessor

The Company's gross property rental income earned during the year from sub-letting a leased property and the direct lease of three (2018: two) investment properties owned by the Company was £708,000 (2018: £789,000). No contingent rents were recognised in income (2018: £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	2019 £'000	2018 £'000
Within one year	902	681
In two to five years	1,602	1,596
Beyond five years	1,966	1,071
	4,486	3,348

Notes to the Financial Statements

for the year ended 31 March 2019

27. Capital commitments

The Group and Company had no capital commitments at 31 March 2019 (2018: £2.3 million).

28. Operating financial commitment

The Group and Company had contingent liabilities at 31 March 2019 of £0.8 million (2018: £nil).

29. Legal contingent liability

In September 2015, Volkswagen Aktiengesellschaft announced that certain diesel vehicles manufactured by Volkswagen, Skoda, SEAT and Audi, which contain 1.2, 1.6 and 2.0 litre EA 189 diesel engines were fitted with software which is thought to have operated such that when the vehicles were experiencing test conditions, the characteristics of nitrogen oxides ("NOx") were affected. The vehicles remain safe and roadworthy.

Technical measures have been approved by the German type approval authority, the Kraftfahrt-Bundesamt (the "KBA") in respect of Volkswagen and Audi branded vehicles, by the UK type approval authority, the Vehicle Certification Agency (the "VCA") in respect of Skoda and certain SEAT branded vehicles, and by the Ministerio de Industria, Energía y Turismo (the "MDI") in respect of SEAT branded vehicles. The KBA and VCA have confirmed for all affected vehicles that the implementation of the technical measures does not adversely impact fuel consumption figures, CO_2 emissions figures, engine output, maximum torque and noise emissions. The MDI is also content that the technical measures be applied to those SEAT vehicles for which they are the relevant approval authority.

We understand that to date in the region of 870,000 affected UK vehicles have now had the technical measures applied.

Notwithstanding the above, claims on behalf of multiple claimants, arising out of or in relation to their purchase, ownership or acquisition on finance of a Volkswagen Group vehicle affected by the NOx issue, have been brought or intimated against a number of Volkswagen entities and dealers, including Caffyns. To date, Caffyns has been named as a Defendant on 13 claim forms alleging fraudulent misrepresentation, breach of contract, breach of statutory duty, breach of the Consumer Credit Act 1974 and a breach of the Consumer Protection from Unfair Trading Regulations 2008. As litigation progresses further, there is the potential for the number of claimants bringing claims against Caffyns to increase.

On 28 October 2016, one of the claimant firms served its application for a Group Litigation Order ("GLO"). The application for the GLO was finally heard by the Senior Master on 27–29 March 2018. At that hearing the Senior Master indicated that she would recommend to the President of the Queen's Bench Division that a GLO be made in the terms of the draft Order which was before her. The President of the Queen's Bench Division has since provided his consent to the GLO, and a sealed copy of the final GLO is currently awaited from the Court.

On 5–6 March 2019, the first case management conference ("CMC") took place. The Judge ordered that a trial of preliminary issues should take place on the following issues:

(i) "Is the High Court of England and Wales bound by the finding of the competent EU type approval authority that a vehicle contains a defeat device in circumstances where that finding could have been, but has not been, appealed by the manufacturer; and/or is it an abuse of process for the Defendants to seek collaterally to attack the KBA's reasoning or conclusions by denying that the affected vehicles contain defeat devices?"; and

(ii) "Where a vehicle's engine control unit is capable of identifying the New European Driving Cycle test and operates in a different mode during the test by altering the rate of exhaust gas recirculation to reduce NOx emissions, does the vehicle contain a 'defeat device' within the meaning of Article 3(10) of Regulation 715/2007/EC?"

The preliminary issues trial will take place 2 December – 13 December 2019.

At present, the litigation is in its early stages, and therefore at this stage it is too early to assess reliably the merit of any such claim. Accordingly, no provision for liability has been made in these financial statements.

Notwithstanding the early stage of the litigation, Volkswagen has agreed to indemnify Caffyns for the reasonable legal costs of defending the litigation and any damages and adverse legal costs that Caffyns may be liable to pay to the claimants as a result of the litigation and the conduct of the Volkswagen Group. The possibility, therefore, of an economic cost to Caffyns resulting from the defence of the litigation is remote.

30. Critical accounting judgements and estimates when applying the Company'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 estimates in applying the Company's accounting policies are listed below.

Retirement benefits obligation

The Company has a defined benefit pension plan. The obligations under this plan are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of assumptions used are provided in note 20. At 31 March 2019, the net liability included in the statement of financial position was £8.6 million (2018: £9.5 million).

Impairment

The carrying value of property, plant and equipment and goodwill are tested annually for impairment as described in notes 11, 12 and 13. For the purposes of the annual impairment testing, the directors recognise Cash Generating Units ("CGUs") to be those assets attributable to an individual dealership, which represents the smallest group of assets which generate cash inflows that are independent from other assets or CGUs. The recoverable amount of each CGU is based on the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell of each CGU is based upon the market value of any property contained within it and is determined by an independent valuer, and its value in use is determined through discounting future cash inflows (as described in detail in note 11). As a result of this review the directors considered it appropriate to impair the carrying value of property assets by £0.95 million (2018: £Nil) (see notes 11, 12 and 13).

Surplus ACT recoverable

The Company carries a balance of surplus unrelieved advanced corporation tax ("ACT") which can be utilised to reduce corporation tax payable subject to a restriction to 19% 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. During the year, the Company partially impaired the value of the ACT by £301,000 in order to avoid recognising an overall deferred tax asset. Therefore, at 31 March 2019, the carrying value of surplus ACT is £835,000 (2018: £1,136,000) and shadow ACT is £672,000 (2018: £781,000). 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 Company's profitability could result in a delay in the utilisation of surplus unrelieved ACT. However, based on the Company'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 2027.

Support arrangements

On occasion, the Company can be assisted in the relocation, development and support of certain of its businesses. On receipt of these payments the Company forms a judgement whether the payment is capital in nature, in which case the payment is deducted from the capital cost of the development in question, or revenue in nature, in which the payment is amortised over a two-year period from the date of relocation.

During the year the Group received a contribution of £255,000 from a brand partner toward the cost of developing the Angmering dealership. The contribution agreement was not specific as to whether the amount contributed was in respect of the capital expenditure incurred by the Group, or in respect of other operating activities (such as marketing) which the Group was required to undertake as part of the relocation.

Notes to the Financial Statements

for the year ended 31 March 2019

30. Critical accounting judgements and estimates when applying the Company's accounting policies (continued)

Consequently, the Directors needed to apply judgement in determining the appropriate accounting treatment. Having considered all information available, including the contribution agreement and past correspondence with the brand partner, the Directors determined it appropriate to account for the contribution as capital in nature, and deducted the amount received from the carrying amount of the property, plant and equipment assets associated with the Angmering dealership.

The Directors considered an alternative treatment, including recognising the amount received over the rolling two-year term of the franchise agreement. This would have resulted in an increase in profit of £96,000 during the year ended 31 March 2019 and an increase in net assets of the same amount as at 31 March 2019, with the remaining £159,000 standing to be recognised over the remaining contractual period as follows: year ending 31 March 2020: £127,500, year ending 31 March 2021: £31,500.

Five Year Review

(adjusted for discontinued operations)

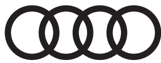
	2015 £'000	2016 £'000	Restated 2017 £'000	Restated 2018 £'000	**2019 £'000**
Income Statement					
Revenue	172,400	186,401	212,581	215,868	**209,246**
Underlying operating profit	2,480	2,544	2,981	2,325	**2,626**
Finance expense	(1,184)	(1,079)	(930)	(935)	**(1,181)**
Underlying profit before tax	1,296	1,465	2,051	1,390	**1,445**
Non-underlying items	8,966	(222)	(392)	(225)	**(1,873)**
Profit before tax from discontinued operations	1,176	1,392	4,623	–	**–**
Profit/(loss) before tax	11,438	2,635	6,282	1,165	**(428)**
Profit/(loss) after taxation	9,255	2,487	5,123	1,030	**(566)**
Basic earnings/(deficit) per ordinary share	335.5p	90.1p	186.3p	38.2p	**(21.0)p**
Underlying earnings per ordinary share	43.6p	48.8p	58.0p	45.6p	**35.3p**
Dividend per ordinary share payable in respect of the year	20.25p	21.75p	22.50p	22.50p	**22.50p**

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

	2015 £'000	2016 £'000	Restated 2017 £'000	Restated 2018 £'000	**2019 £'000**
As at year end					
Shareholders' funds	24,494	27,180	28,326	27,913	**27,975**
Property, plant and equipment*	37,984	39,385	42,609	46,957	**47,394**
Bank overdrafts and loans (net)	10,133	11,156	8,554	14,000	**13,592**
Bank overdrafts and loans/shareholders' funds (gearing)	41%	40%	30%	50%	**49%**
Retirement benefit liability	5,388	4,980	8,554	9,497	**8,576**

* Includes Investment property and assets held for sale.

Our dealerships

	**AUDI** BRIGHTON: EASTBOURNE: WORTHING:	 200 Dyke Road, Brighton, BN1 5AT (01273 553061) Edward Road, Eastbourne, BN23 8AS (01323 525700) Roundstone Lane, Worthing, BN16 4BD (01903 231111)
	SEAT TUNBRIDGE WELLS:	 North Farm Industrial Estate, Tunbridge Wells, TN2 3EL (01892 515700)
	SKODA ASHFORD: TUNBRIDGE WELLS:	 The Boulevard, Ashford, TN24 0GA (01233 504600) North Farm Industrial Estate, Tunbridge Wells, TN2 3EL (01892 515700)
	VAUXHALL ASHFORD:	 Monument Way, Orbital Park, Ashford, TN24 0HB (01233 504604)
	VOLKSWAGEN BRIGHTON: EASTBOURNE: HAYWARDS HEATH: WORTHING:	 Victoria Road, Portslade, BN41 1YD (01273 425600) Lottbridge Drove, Eastbourne, BN23 6PW (01323 647141) Market Place, Haywards Heath, RH16 1DN (01444 451511) Nightingale Avenue, Worthing, BN12 6FH (01903 837878)
	VOLVO EASTBOURNE:	 Lottbridge Drove, Eastbourne, BN23 6PJ (01323 418300)
	MOTORSTORE ASHFORD:	 Monument Way, Orbital Park, Ashford, TN24 0HB (01233 504624)
	HEAD OFFICE EASTBOURNE:	 Meads Road, Eastbourne, BN20 7DR (01323 730201)

ŠKODA

Worthing Audi

CAFFYNS
MOTORSTORE

THE USED CAR

VAUXHALL

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