

Caffyns plc

Preliminary Results for the year ended 31 March 2020

Summary

	2020 £'000	2019 £'000
Revenue	197,854	209,246
Underlying EBITDA (see note A)	3,428	3,982
Underlying profit before tax (see note A)	251	1,445
Profit/(loss) before tax	103	(428)
	pence	pence
Underlying (deficit)/earnings per share	(4.9)	35.3
Deficit per share	(9.4)	(21.0)
Proposed final dividend per ordinary share	—	15.00
Dividend per ordinary share for the year	7.50	22.50

Note A: Underlying results exclude items that have non-trading attributes due to their size, nature or incidence. Non-underlying items for the period totalled a credit of £39,000 (2019: charge of £1,651,000) and are detailed in Note 5 to this consolidated financial information. Underlying EBITDA of £3,428,000 (2019: £3,982,000) represents Operating profit before non-underlying items of £1,633,000 (2019: £2,626,000) adding back Depreciation and amortisation of £1,795,000 (2019: £1,356,000).

Note B: The implementation of IFRS 16 Leases decreased profits before tax for the year ended 31 March 2020 by £20,000 but increased underlying EBITDA by £236,000 in comparison to the previous accounting treatment.

Overview

- Revenue down 5.4% to £197.9 million
- Like-for-like new car unit deliveries down by 11.0%
- Like-for-like used car unit sales down by 1.4%
- Aftersales revenues unchanged against 2019
- Underlying profit before tax of £0.3 million (2019: £1.4 million)
- No final dividend for the year ended 31 March 2020 due to the impact of the covid-19 pandemic
- Property portfolio revaluation as at 31 March 2020 showing an £11.8 million (2019: £11.2 million) surplus to net book value (not recognised in these accounts)

Commenting on the results Simon Caffyn, Chief Executive, said: *"The year under review was defined by two key events: the covid-19 pandemic in March 2020 and the further implementation of the emissions-testing regime, Real Driving Emissions, in September 2019. In the light of these two events, the board reports a reduced underlying profit before tax for the year of £0.25 million. The response from our employees to the Covid-19 crisis has been outstanding. Due to their efforts we experienced a strong trading performance in June as the businesses began to fully re-open."*

Enquiries:

Caffyns plc

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Operational and Business Review

The year under review was defined by two key events. Firstly, the covid-19 pandemic and the related requirement to curtail the year early, temporarily closing all our car showrooms and most of our aftersales operations on 24 March 2020. This impacted materially on the result for the bi-annual registration plate change month of March, our most important trading month of the financial year. The second event, as highlighted at our half-year stage, was the adverse impact on the majority of our brands that arose from the further implementation of the emissions-testing regime, Real Driving Emissions, commonly referred to as RDE. This created some scarcity of supply of new cars for a number of our brands and adversely impacted on our second most important trading month of the year, September 2019. In the light of these two events, the board reports an underlying profit before tax for the year of £0.25 million (2019: £1.45 million). Full year turnover fell by 5.4% to £197.9 million (2019: £209.2 million), predominantly due to much lower levels of new car deliveries in the year. Used car unit sales, which remained unaffected by RDE, fell by just 1.4%, whilst aftersales revenues were unchanged, despite losing more than a week of activity in the run up to the year-end.

Our statutory result before tax for the year was a profit of £0.1 million (2019: loss of £0.4 million). Due to the tax charge being in excess of the pre-tax profit, basic losses per share were 9.4 pence (2019: 21.0 pence).

The underlying deficit per share for the year was 4.9 pence (2019: earnings of 35.3 pence).

Coronavirus (“covid-19”)

The Company faced an unprecedented situation when it was required to temporarily close all its car showrooms and most of its aftersales operations on 24 March 2020, following UK Government restrictions implemented to deal with the nationwide covid-19 pandemic. With our showrooms closed, only on-line and telephone sales operations were able to continue, alongside three aftersales operations which provided essential support for NHS and other key workers only.

Subsequent to the year-end, in May 2020, we re-started our aftersales operations at all sites with our showrooms re-opening on 1 June 2020. The temporary closure impacted the year-end audit process and caused a delay to our normal reporting timetable. As a result, the Annual General Meeting has been delayed from 28 July and is now scheduled for 24 September 2020. Given the exceptional circumstances, this year’s Annual General Meeting will need to be run as a closed meeting and shareholders will not be able to attend in person. Shareholders will be invited to register questions in advance of the meeting for the board to answer and answers will be made available after the meeting via the Company’s corporate website, www.caffynsplc.co.uk.

In response to the impact of covid-19, the Company implemented numerous cash preservation and cost saving measures across many areas of the business. These included making extensive use of the Government’s Job Retention Scheme, with approximately 80% of the Company’s employees furloughed in April 2020. The number of furloughed employees reduced in May as our aftersales operations returned to more normal activity levels and then reduced further in June as we were given permission to re-open our showrooms. As part of our cost savings exercise, an annual salary ceiling of £37,500 was implemented for all active employees, including the executive directors and the chairman of the Company, for the month of April 2020. This ceiling impacted on 45 employees, approximately 10% of the workforce. The non-executive directors of the Company also agreed a significant reduction to their fees. These salary reductions have been unwound in stages, with non-furloughed employees (except for full time executive directors) returning to 80% of their contractual salary from 1 May 2020. The full-time executive directors moved to 50% of their contractual salary from 1 May 2020 and then to 80% of their contractual salary from 1 June 2020. The remuneration of the Chairman remained at the annual ceiling of £37,500 for the month of May and then increased to 80% of his contractual fees for June. All employees, including the board, returned to their full contractual salaries from 1 July 2020.

The response from our employees to this crisis has been outstanding and the board would like to particularly thank those that remained active throughout the lockdown period to ensure that we were able to offer an emergency aftersales response to NHS and other key workers and to restart the business quickly and effectively, first for aftersales in May 2020 and then for car sales in June 2020. We remain very focused on the health and safety of our

employees and customers and our showroom and workshop activities continue to be undertaken in a responsible and socially distanced way.

Full use was also made of inventory stocking facilities and the Company's manufacturer partners have been, and continue to be, very supportive, offering extended new vehicle funding and reduced funding costs.

New and used car sales

Our new unit sales fell by 11.0% on a like-for-like basis. With the key trading months of March 2020 and September 2019 impacted respectively by the temporary showroom closures highlighted above and the negative impact of RDE. In the year total UK new car registrations declined by 11.7% and, within this total, new car registrations in the private and small business sector in which we principally operate fell by 14.3%.

Unit sales volumes of used cars fell by 1.4% on a like-for-like basis, although unit margins remained strong. Over the last five-year period, the Company has recorded a 33% 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 loss of over a week's activity in late March from the covid-19 temporary closures, we were encouraged that our service revenues in the year continued to rise, by 2.4% 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 reported slightly lower sales, down by 1.3% on a like-for-like basis over the previous year.

Operations

Our Volvo business in Eastbourne traded profitably in the year and we were delighted to extend our representation by signing a new dealer agreement for a territory in Worthing, West Sussex. The new business was scheduled to open just as the covid-19 pandemic led to Government-mandated temporary showroom closures and was therefore unable to begin trading as planned in the year under review. Since the year-end, we have now opened this site for both car sales and aftersales operations. The franchise continues to reap the benefits of an excellent model range of cars, which continue to be positively received by customers.

In Tunbridge Wells, our SEAT business continued to perform well although the adjacent Skoda business found the year more challenging. Our Skoda business in Ashford performed satisfactorily, after allowing for the dual impacts of the covid-19 temporary closure and RDE.

Our Audi and Volkswagen businesses both produced new car performances in line with the national picture but both suffered materially from the impact of the covid-19 temporary closures and, to a lesser extent, from RDE. We remain confident that the strength of both brands, their excellent model ranges and exciting new products will help to lead the recovery in their future trading performance.

Our Vauxhall business in Ashford continued to experience challenging trading conditions in the year with Vauxhall's national new car registrations in the year down by 26%, a much higher level than the decline in the overall UK market.

Trading at Caffyns Motorstore, our used car business in Ashford, remained depressed as the business suffered from growing pains. However, the concept has been very well received by our customers who particularly value the reassurance of the Caffyns brand and we expect performance to improve as management and operational changes have a positive impact on trading performance.

Groupwide projects

We remain focused on generating further improvements in used car sales, used car finance and service labour sales. These three areas will be key to achieving increases in profitability in the coming years. 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 to 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 2020 was £11.8 million (2019: £11.2 million). We would however note that CBRE drew attention in their valuation report to the uncertainty that the present covid-19 pandemic could have on property values. 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.

No impairments against the carrying value of freehold property were required in the year under review. In the prior year, two properties were impaired for a total of £0.9 million. This was charged to administrative expenses as a non-underlying expense.

During the year, we incurred capital expenditure of £1.0 million (2019: £2.8 million). There were no major property development projects in the year and the spend reflected a mixture of the installation of electric charging points, an expansion to our smart repair offering and replacement spend on existing assets.

The Company implemented IFRS 16 Leases with effect from 1 April 2019, the start of its financial year. As a result, one property lease was reclassified as a right-of-use asset and one lease as an interest in lease receivable. As a result, the Company's assets and liabilities increased by £2.0 million and pre-tax profits in the year under review were reduced by £20,000 compared to the previous accounting treatment. During the year, one further lease was entered into which was classified as a right-of-use-asset with a value on inception of £0.2 million.

Our freehold premises in Lewes remain leased until at least October 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 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 also provides an overdraft facility of £3.5 million, renewable annually. The Company continues to enjoy a supportive relationship with HSBC and, subsequent to the year-end, the overdraft facility limit was increased to £6.0 million. 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.

In order to assist in the conservation of cash balances, HSBC granted capital repayment holidays on our term loans, for the March and June 2020 quarters. Similar concessions were granted by Volkswagen Bank, for the months of April and May. The term loan and revolving credit facilities provided by HSBC include certain covenant tests which were passed at 31 March 2020. HSBC have confirmed to the Company their agreement to a relaxation in the covenant tests for September 2020 and March 2021 which provides reasonable comfort to the directors that these tests will be successfully passed at those times. The failure of a covenant test would render these facilities repayable on demand at the option of the lender.

Bank borrowings, net of cash balances, at 31 March 2020 were £16.2 million (2019: £13.6 million) and as a proportion of shareholders' funds at 31 March 2020 were 62% (2019: 49%). Available but undrawn facilities at 31 March 2020 were in excess of £10 million. The increase in gearing in the year was impacted by the early curtailment of trading in March 2020 due to the covid-19 pandemic.

Taxation

The year ended 31 March 2020 resulted in a tax charge of £0.4 million (2019: £0.1 million). The effective tax rate was significantly higher than the standard rate of corporation tax in force for the year of 19%, mainly due to the impact on deferred tax from the change of tax rate in the year as well as to adjustments to prior year estimates of the tax

liability on unrealised gains charged in the current year that would arise from the future sale of properties and goodwill.

The Company has current outstanding trading losses awaiting relief of £0.1 million (2019: £Nil). There are no 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 £8.9 million (2019: £7.9 million) which could equate to a future potential tax liability of £1.7 million (2019: £1.3 million). The Company also has an amount of £1.1 million (2019: £1.1 million) of recoverable Advanced Corporation Tax ("ACT") and £0.8 million (2019: £0.7 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.

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. At 31 March 2020 the deficit had widened to £9.4 million (2019: £8.6 million). The deficit, net of deferred tax, was £7.6 million (2019: £7.1 million).

The Scheme operates with a fiduciary manager and the board, together with the independent pension fund trustees, continues to review options to reduce the cost of operation and 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 £0.2 million in the year (2019: £0.2 million). In the prior year, the Income Statement was charged with a non-underlying cost of £0.9 million which was our best estimate of the financial impact of equalising Guaranteed Minimum Pensions between our male and female scheme members. This followed 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 was arrived at following advice from the Scheme's actuary.

A formal triennial valuation of the Scheme is currently underway, effective for 31 March 2020. The last completed review was carried out as at 31 March 2017 and was submitted to the Pensions 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 £0.5 million (2019: £0.5 million). The annual recovery plan payment for the coming and each subsequent year will increase by the greater of 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 31 March 2020 triennial valuation is expected to be completed and submitted to the Pensions Regulator by June 2021.

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 remained outstanding.

Nick Hollingworth retired from the board in July 2019, having served eleven years as a non-executive director. I, and the other members of the board, would like to thank him for his outstanding contribution over that period. Nick's successor, Stephen Bellamy, was appointed in June 2019 and has already proved himself as a valuable addition to the board.

The Company has a long tradition of investing in apprenticeship programmes and this continued alongside the new Government apprenticeship levy that was implemented in April 2017. We have kept our apprenticeship numbers at a high level and 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 continue 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 maintaining a healthy complement in the coming year to assist the Company to grow.

Dividend

The Company has a strong balance sheet and the board remains confident in its future prospects. However, in the light of the covid-19 pandemic, the Government support of which the Company has taken advantage, and in order to conserve cash resources, the board has decided not to declare a final dividend in relation to the year ended 31 March 2020.

An interim dividend of 7.5 pence per Ordinary share (2019: 7.5 pence) was paid during the year. The total dividend for the year was therefore 7.5 pence per ordinary share (2019: 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

In the light of the ongoing impact of the covid-19 pandemic, we are very cautious about the future outlook. We incurred substantial losses in April and May whilst the business was in an effective lockdown state although we were pleased with the levels of trading achieved in June as we reopened our showrooms. However, we still expect ongoing trading to take time to revert to previous levels. We continue to enjoy supportive relationships with our banking partners, HSBC and Volkswagen Bank with available but undrawn facilities in excess of £10 million at the year-end. By increasing the use of inventory stocking facilities since the year-end, headroom against banking facilities has been further increased and is currently £13 million. Our manufacturer partners have been, and continue to be, very supportive, offering extended new vehicle funding and reduced funding costs. Therefore, the board is confident that the Company has sufficient liquidity to allow it to effectively navigate the post-lockdown period and to capitalise on the trading opportunities which are expected to arise as markets return to more normal levels of activity.

S G M Caffyn

Chief Executive
17 July 2020

Group Income Statement

for the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Revenue		197,854	209,246
Cost of sales		(172,850)	(183,317)
Gross profit		25,004	25,929
Operating expenses			
Distribution costs		(16,035)	(15,913)
Administration expenses		(8,025)	(9,843)
Operating profit before other income		944	173
Other income (net)		728	802
Operating profit		1,672	975
Operating profit before non-underlying items		1,633	2,626
Non-underlying items within operating profit	5	39	(1,651)
Operating profit		1,672	975
Finance expense	6	(1,382)	(1,181)
Finance expense on pension scheme		(187)	(222)
Net finance expense		(1,569)	(1,403)
Profit/(loss) before taxation		103	(428)
Profit before tax and non-underlying items		251	1,445
Non-underlying items within operating profit	5	39	(1,651)
Non-underlying items within finance expense on pension scheme	5	(187)	(222)
Profit/(loss) before taxation		103	(428)
Taxation	7	(355)	(138)
Loss for the year		(252)	(566)
Deficit per share			
Basic	8	(9.4)p	(21.0)p
Diluted	8	(9.4)p	(21.0)p
Underlying (deficit)/earnings per share			
Basic	8	(4.9)p	35.3p
Diluted	8	(4.9)p	35.3p

Group Statement of Comprehensive Income

for the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
Loss for the year		(252)	(566)
Items that will never be reclassified to profit and loss:			
Remeasurement of net defined benefit liability		(1,169)	1,510
Deferred tax on remeasurement	17	222	(257)
Effect of change in deferred tax rate	17	154	—
Total other comprehensive (expense)/income, net of taxation		(793)	1,253
Total comprehensive (expense)/income for the year		(1,045)	687

Group Statement of Financial Position

at 31 March 2020

	Note	2020 £'000	2019 £'000
Non-current assets			
Right-of-use assets	10	925	—
Property, plant and equipment	11	38,783	39,225
Investment properties	12	8,052	8,169
Interest in lease	13	730	—
Goodwill	14	286	286
Deferred tax asset	17	—	—
		48,776	47,680
Current assets			
Inventories	15	39,728	34,468
Trade and other receivables		4,318	8,796
Interest in lease	13	178	—
Current tax recoverable		66	—
Cash and cash equivalents		1,478	3,908
		45,768	47,172
Total assets		94,544	94,852
Current liabilities			
Interest-bearing overdrafts and loans		5,875	4,875
Trade and other payables	16	38,346	39,886
Lease liabilities		491	—
Current tax payable		—	103
		44,712	44,864
Net current assets		1,056	2,308
Non-current liabilities			
Interest-bearing overdrafts and loans		11,844	12,625
Lease liabilities		1,362	—
Preference shares		812	812
Retirement benefit obligations		9,434	8,576
		23,452	22,013
Total liabilities		68,164	66,877
Net assets		26,380	27,975
Capital and reserves			
Share capital		1,439	1,439
Share premium account		272	272
Capital redemption reserve		707	707
Non-distributable reserve		1,724	1,724
Retained earnings		22,238	23,833
Total equity attributable to shareholders		26,380	27,975

Group Statement of Changes in Equity

for the year ended 31 March 2020

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non- distributable reserve £'000	Retained Earnings £'000	Total £'000
At 1 April 2019	1,439	272	707	1,724	23,833	27,975
Total comprehensive expense						
Loss for the year	—	—	—	—	(252)	(252)
Other comprehensive expense	—	—	—	—	(793)	(793)
Total comprehensive expense	—	—	—	—	(1,045)	(1,045)
Transactions with owners:						
Dividends	—	—	—	—	(606)	(606)
Share-based payment	—	—	—	—	56	56
At 31 March 2020	1,439	272	707	1,724	22,238	26,380

for the year ended 31 March 2019

	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 application of IFRS 15 Revenue from Contracts with Customers led to an adjustment to the opening retained earnings of a reduction of £75,000.

In the prior year, the Company identified errors in both the calculation and methodology of its potential deferred tax liability on held-over gains from property disposals and from accelerated capital allowances which resulted in an overstatement of its deferred tax liability by £790,000.

Group Cash Flow Statement

for the year ended 31 March 2020

		2020	Restated 2019
	Note	£'000	£'000
Net cash (outflow)/inflow from operating activities	18	(802)	3,759
Investing activities			
Proceeds on disposal of property, plant and equipment		—	10
Purchases of property, plant and equipment		(980)	(2,755)
Net cash outflow from investing activities		(980)	(2,745)
Financing activities			
Overdraft facility utilised		1,000	1,000
Secured loans repaid		(781)	(875)
Dividends paid		(606)	(606)
Repayment of lease liabilities		(261)	—
Net cash outflow from financing activities		(648)	(481)
Net decrease in cash and cash equivalents		(2,430)	533
Cash and cash equivalents at beginning of year		3,908	3,375
Cash and cash equivalents at end of year		1,478	3,908
		2020	2019
		£'000	£'000
Cash and cash equivalents		1,478	3,908
Bank overdrafts		(5,000)	(4,000)
Net cash and cash equivalents		(3,522)	(92)

The cash flow statement for the prior year has been restated to disclose overdraft and cash balances separately.

Notes

for the year ended 31 March 2020

1. GENERAL INFORMATION

Caffyns plc is a company domiciled in the United Kingdom. The address of the registered office is Saffrons Rooms, Meads Road, Eastbourne BN20 7DR. The registered number of the Company is 105664.

This financial information has been extracted from the consolidated financial statements which were approved by the directors on 17 July 2020.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU, International Financial Reporting Interpretations Committee ("IFRIC") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. This financial information has been prepared on the same basis as in 2019 with the exception of IFRS 16 Leases, which was implemented with effect from 1 April 2019. The impact of this new standard on the financial statements for the year ended 31 March 2020 is detailed below.

Whilst the financial information included in this announcement has been computed in accordance with IFRSs, this announcement does not itself contain sufficient information to comply with IFRSs.

The financial information set out does not constitute the Company's statutory accounts for the year ended 31 March 2020, but is derived from those accounts. Statutory accounts for the year ended 31 March 2019 have been delivered to the Registrar of Companies and those for the year ended 31 March 2020 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) Companies Act 2006 or equivalent preceding legislation.

A copy of the annual report for the year ended 31 March 2020 will be available at www.caffynsplc.co.uk and will be posted to shareholders by 21 August 2020.

New accounting standard

A new Standard, IFRS 16 Leases, came into effect from 1 January 2019 and has been adopted by the Company with effect from the start of its current financial year on 1 April 2019. The new Standard, which replaced International Accounting Standard 17 and three related Interpretations, has completed a long-running project of the International Accounting Standards Board 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, representing the Company's right to use the underlying asset, and a lease liability, representing its obligations to make lease payments.

Under the previous accounting policy, the Company classified leases as either an operating lease or a finance lease depending upon whether it was deemed that substantially all the risks and rewards of ownership had transferred.

Under IFRS 16 the Company recognises a right-of-use asset for all leases with the exception of those deemed to be of low value or short-term in nature, in which case lease payments are expensed on a straight-line basis over the lease term.

The revised accounting policy under IFRS 16 is as follows:

Significant accounting policies – Leases

The Company recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, and subsequently at cost less accumulated depreciation and impairment losses and is then adjusted for certain remeasurements of the lease liability. Depreciation is recognised on a straight-line basis over the period of the lease the right-of-use asset is expected to be utilised.

The lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease or, when this is not readily attainable, the Company's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and reduced by payments made. It is remeasured when there is a change in future lease payments arising from a change of index or rate, a variation in amounts payable following contractual rent reviews and changes in the assessment of whether an extension/termination option is reasonably certain to be exercised.

Where lease contracts include renewal and termination options, judgement is applied to determine the lease term. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term and the subsequent recognition of the lease liability and right-of-use asset.

Where the Company acts as a lessor, receipts of lease payments are recognised in the income statement on a straight-line basis over the period of the lease unless it is deemed that the risks and rewards of ownership have been substantially transferred to the Company's lessee. If it is deemed that the risks and rewards of ownership have been substantially transferred then the Company will, rather than recognise a right-of-use asset, recognise an investment in the lease, this being the present value of future lease receipts discounted at the interest rate implicit in the lease or, if this is not specified, at the Company's incremental borrowing rate. The finance lease receivable will be increased by the interest received less payments made by the lessee.

Transition

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. One of these properties was leased on to a third party where the terms of the sub-lease mirror those of the Company's own lease. Upon adopting IFRS 16, one lease has been recognised as a right-of-use asset with a corresponding lease liability while the Company's interest in the second lease, sub-let to a third party, has been recognised as an asset with a corresponding lease liability.

In its transition to IFRS 16 the Company has applied the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 April 2019. Accordingly, the comparative information has not been restated.

The Company's incremental borrowing rate has been estimated at 2.7%.

At transition, for leases classified as operating leases under IAS 17 Leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 April 2019. Right-of-use assets were measured as an amount equal to the lease liability.

The Company has applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- to apply the exemption not to recognise right-of-use assets and liabilities with less than 12 months of the lease term remaining at 1 April 2019;
- to exclude initial direct costs from measuring the right-of-use asset at date of initial application;
- to use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Under the previous accounting treatment, the lease rentals paid for the two properties highlighted above were charged against underlying profits and no asset or liability was recognised in the Statement of Financial Position. The implementation of the Standard increased the Company's assets and liabilities by £2,038,000 and reduced pre-tax profits in the year under review by £20,000. During the year, the Company recognised £256,000 of depreciation charges, an interest expense of £24,000 and made payments of £260,000 in respect of its lease liabilities. As a Lessor, the Company received payments of £185,000 in respect of the investment in lease receivable.

3. 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 directors have considered the going concern basis and have undertaken a detailed review of trading and cash flow forecasts for a period in excess of one year from the date of approval of this Annual Report. This has focused primarily on the achievement of the banking covenants. All bank covenants have been achieved for the year under review. In light of covid-19, post year-end HSBC have confirmed to the Company the relaxation in the debt service covenant test for September 2020 and March 2021. The new covenants test requires the Company to make an underlying profit before interest for the rolling twelve-month period to September 2020 and to March 2021. The Company have modelled these periods and conclude that there is headroom that would allow for a 40% reduction in expected new and used units over this period. External market commentary provided by the Society of Motor Manufacturers and Traders ("SMMT") indicate that new car registrations will remain broadly in line with the same six-month period to December 2019 with increases into 2021 whilst the used car market has remained stable over the past four years. Since re-opening on the 1 June 2020 demand and financial results have both been stronger than had been anticipated and the current new car order take for July and beyond is ahead of this time last year.

The directors have also considered the Company's working capital requirements. 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 £6.8 million and a revolving credit facility of £7.5 million from HSBC, its primary bankers, with both facilities being renewable in March 2023. HSBC also make available a short-term overdraft facility of £3.5 million which is renewed annually in August. Subsequent to the year-end, this facility limit was increased to £6.0 million. The Company also has a 10-year term loan from VW Bank with a balance outstanding at 31 March 2020 of £1.9 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 failure of a covenant test would render these facilities repayable on demand at the option of the lender.

Information concerning the Company's liquidity and financing risk are set out on page 10 and note 21 to the financial statements.

The directors have a reasonable expectation that the Company has adequate resources and headroom against the covenant test to be able continue in operational existence for the foreseeable future and for at least twelve months from the date of approval of the Annual Report. For those reasons, they continue to adopt the going concern basis in preparing this Annual Report.

4. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

These 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 benefit obligation

The Company has a defined-benefit pension scheme. The obligations under this scheme 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 depending on prevailing economic conditions. Details of the assumptions used are provided in note 23 to the consolidated financial statements for the year ended 31 March

2020. At 31 March 2020, the net liability included in the Statement of Financial Position was £9.4 million (2019: £8.6 million).

Impairment

The carrying value of property, plant and equipment and goodwill are tested annually for impairment as described in notes 10, 11, 12, and 14 to these condensed financial information. 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 12). As a result of this review the directors considered that no impairments were required to the carrying value of property assets (2019: impairment charges of £1.0 million) (see notes 10, 11, 12 and 14).

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 ACT on dividends must be fully absorbed before surplus unrelieved ACT can be utilised. In prior years, the Company has partially impaired the value of the ACT by £301,000 in order to avoid recognising an overall deferred tax asset. At 31 March 2020, the carrying value of surplus ACT is £835,000 (2019: £835,000) and shadow ACT is £845,000 (2019: £694,000). 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 2028.

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 case the payment is amortised over a two-year period from the date of relocation.

During the prior year, the Company received a contribution of £255,000 from a brand partner towards the cost of developing its Angmering dealership. The contribution agreement was not specific as to whether the amount contributed was in respect of the capital expenditure incurred by the Company, or in respect of other operating activities (such as marketing) which the Company was required to undertake as part of the relocation. 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 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 prior 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 ended 31 March 2020: £127,500, year ending 31 March 2021: £31,500.

5. Non-underlying items

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

	2020 £'000	2019 £'000
Net (loss)/profit on disposal of property, plant and equipment	(2)	(6)
Other income, net	(2)	(6)
Within operating expenses:		
Service cost on pension scheme	(25)	(27)
VAT claim recovery, net of professional fees	—	315
VAT compliance provision movement	44	(164)
Liquidation distribution received	22	27
Equalisation of Guaranteed Minimum Pensions	—	(851)
Property impairments	—	(945)
	41	(1,645)
Non-underlying items within operating profit	39	(1,651)
Net finance expense on pension scheme	(187)	(222)
Non-underlying items within net finance expense	(187)	(222)
Total non-underlying items before taxation	(148)	(1,873)
Taxation credit on non-underlying items	28	356
Total non-underlying items after taxation	(120)	(1,517)

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

- a periodic VAT inspection from HM Revenue & Customs carried out in a prior period identified certain items of non-compliance with relevant legislation. In the current period, a sum of £44,000 was credited to profit to release a surplus provision which was no longer deemed required;
- a sum of £22,000 was received from the liquidators of MG Rover Group Limited.

In the prior period, the following items were recorded as non-underlying items:

- a sum of £334,000 was recovered in respect of a VAT claim submitted to HM Revenue & Customs 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 was recognised to profit;
- a periodic VAT inspection from HM Revenue & Customs identified certain items of non-compliance with relevant legislation. In the prior period, a sum of £164,000 was charged against profit to cover all items which had been resolved but not yet settled at the year-end;
- a sum of £27,000 was received from the liquidators of MG Rover Group Limited;
- following the setting of a legal precedent regarding the issue of equalisation of Guaranteed Minimum Pensions relating to the members of the defined-benefit pension scheme, a sum of £851,000 was charged against profit as being the best estimate of the cost of equalising pension entitlements between men and women;
- the carrying values of two freehold properties were impaired by a total of £945,000 following advice from the Company's independent valuer, CBRE Limited (see notes 11 and 12).

6. Finance expense

	2020 £'000	2019 £'000
Interest payable on bank borrowings	440	356
Interest payable on inventory stocking loans	741	648
Interest on lease liabilities	24	—
Finance costs amortised	105	105
Preference dividends (see note 9)	72	72
Finance expense	1,382	1,181

No interest was capitalised in the current period.

Interest payable on bank borrowings for the prior period were after capitalising interest of £55,000 on additions to freehold properties at a rate of 2.6%.

The interest charged on lease liabilities arose from the implementation of IFRS 16 Leases with effect from 1 April 2019.

7. Tax

	2020 £'000	2019 £'000
Current tax		
UK corporation tax	—	(261)
Adjustments recognised in the period for current tax of prior periods	22	(22)
Total credit/(charge)	22	(283)
Deferred tax (see note 17)		
Origination and reversal of temporary differences	(356)	21
Adjustments recognised in the period for deferred tax of prior periods	(21)	124
Total (charge)/credit	(377)	145
Tax charged in the Income Statement	(355)	(138)

	2020 £'000	2019 £'000
The tax (charge)/credit arises as follows:		
On normal trading	(383)	(494)
On non-underlying items (see note 5)	28	356
Tax charged in the Income Statement	(355)	(138)

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

	2020 £'000	2019 £'000
Profit/(loss) before tax	103	(428)
Tax at the UK corporation tax rate of 19% (2019: 19%)	(20)	81
Tax effect of expenses that are not deductible in determining taxable profit	(23)	(12)
Difference between accounts profits and taxable profits on capital asset disposals	—	(1)
Other differences related primarily to the revaluation of the pension scheme and from property impairments	(134)	(173)
Effect of change in corporation tax rate	(255)	—
Movement in rolled over and held over gains	76	166
Impairment of Advanced Corporation Tax asset	—	(301)
Adjustment to tax charge in respect of prior periods	1	102
Tax charge for the year	(355)	(138)

The total tax credit/(charge) for the year is made up as follows:

	2020 £'000	2019 £'000
Total current tax credit/(charge)	22	(283)
Deferred tax charge		
Charged/(credited) in the Income Statement	(377)	145
Credited/(charged) against other comprehensive income	376	(257)
Total deferred tax charge	(1)	(112)
Total tax credit/(charge) for the year	21	(395)

Factors affecting the future tax charge

The Company has unrelieved advance corporation tax of £1.4 million (2019: £1.4 million) which is available to be utilised against future mainstream corporation tax liabilities and is accounted for in deferred tax (see note 17).

The tax charge is impacted by the effect of non-deductible expenses which, for the prior year, included 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 by non-qualifying depreciation.

8. Earnings per ordinary share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

Treasury shares are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the pots-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	
	2020	2019	2020	2019
	£'000	£'000	£'000	£'000
Profit/(loss) before tax	103	(428)	103	(428)
Adjustments:				
Non-underlying items (note 5)	148	1,873	—	—
Profit/(loss) before tax	251	1,445	103	(428)
Tax (note 7)	(383)	(493)	(355)	(138)
Profit/(loss) after tax	(132)	952	(252)	(566)
(Deficit)/earnings per share (pence)	(4.9)p	35.3p	(9.4)p	(21.0)p
Diluted (deficit)/earnings per share (pence)	(4.9)p	35.3p	(9.4)p	(21.0)p

	2020	2019
	£'000	£'000
Underlying (deficit)/earnings after tax	(132)	952
Underlying (deficit)/earnings per share (pence)	(4.9)p	35.3p
Underlying diluted (deficit)/earnings per share (pence)	(4.9)p	35.3p
Non-underlying losses after tax	(120)	(1,517)
(Losses)/earnings per share (pence)	(4.5)p	(56.3)p
Diluted (losses)/earnings per share (pence)	(4.5)p	(56.3)p
Total deficit	(252)	(566)
Deficit per share (pence)	(9.4)p	(21.0)p
Diluted deficit per share (pence)	(9.4)p	(21.0)p

The number of fully paid ordinary shares in circulation at the year-end was 2,694,790 (2019: 2,694,790). The weighted average number of shares in issue for the purposes of the earnings per share calculation were 2,694,790 (2019: 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 2020 of £2.80 was less than the option price of £3.99.

9. Dividends

	2020 £'000	2019 £'000
Preference shares		
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 shares		
Interim dividend paid in respect of the current year of 7.5p (2019: 7.5p)	202	202
Final dividend paid in respect of the March 2019 year end of 15.0p (2018: 7.5p)	404	404
	606	606

No final dividend was declared in respect of the year ended 31 March 2020. In the prior year, a final dividend of 15.0 pence was declared which absorbed £404,000 of shareholders' funds.

10. Right-of-use assets

	2020 £'000
Deemed cost	
At 1 April 2019, on implementation	947
Additions in the year	234
At 31 March 2020	1,181
Accumulated depreciation	
At 1 April 2019, on implementation	—
Depreciation for the year	256
At 31 March 2020	256
Net book value	
At 31 March 2020	925

The Company implemented IFRS 16 with effect from 1 April 2019 and the accounting policy adopted is set out in detail on pages 56 and 57. In addition to one lease that was capitalised on implementation of IFRS 16, one further property was added in the year as a result of a lease entered into by the Company in December 2019.

Depreciation and impairment charges of £256,000 (2019: £nil) in respect of Right-of-use assets is recognised within Administration Expenses in the Income Statement.

11. Property, plant and equipment

	Freehold property £'000	Assets under construction £'000	Leasehold improvements £'000	Fixtures & fittings £'000	Plant & machinery £'000	Total £'000
Cost or deemed cost						
At 1 April 2019	40,748	—	690	4,804	6,086	52,328
Additions at cost	4	—	38	461	477	980
Disposals	—	—	—	(45)	(46)	(91)
At 31 March 2020	40,752	—	728	5,220	6,517	53,217
Accumulated depreciation						
At 1 April 2019	4,955	—	445	3,168	4,535	13,103
Depreciation charge for the year	575	—	62	471	312	1,420
Disposals	—	—	—	(43)	(46)	(89)
At 31 March 2020	5,530	—	507	3,596	4,801	14,434
Net book value 31 March 2020	35,222	—	221	1,624	1,716	38,783

Short-term leasehold property for both the Company and the Group comprises £221,000 at net book value in the Statement of Financial Position (2019: £245,000).

Additions to freehold property includes interest capitalised of £nil (2019: £55,000) (see note 6).

Depreciation and impairment charges of £1,420,000 (2019: £1,248,000) in respect of Property, plant and equipment is recognised within Administration Expenses in 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. In the prior year, owing to a decline in the market value of 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 was categorised as a Level 3 within the hierarchy set out in IFRS 13 Fair Measurement. The following were 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

The Company valued its portfolio of freehold premises and investment properties as at 31 March 2020. 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. The outbreak of the novel coronavirus (covid-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, had a significant impact on global financial markets and travel restrictions were implemented by many countries. Market activity was adversely impacted in many sectors. As at the valuation date, CBRE therefore considered that they could attach less weight to previous market evidence for comparison purposes, when informing opinions of value. Indeed, they noted in their report that the current response to covid-19 meant that they were faced with an unprecedented set of circumstances on which to base a judgement. Their valuations were therefore reported as being subject to a 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to their valuation than

would normally be the case, given the unknown future impact that covid-19 might have on the real estate market. CBRE noted in their report, for the avoidance of doubt, that the inclusion of their 'material valuation uncertainty' declaration above did not mean that the valuation could not be relied upon. Rather, the declaration was included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty could be attached to the valuation than would otherwise be the case. CBRE noted that the material uncertainty clause was to serve as a precaution and did not invalidate the valuation. Other than in relation to the caveat noted above, management are satisfied that this valuation is materially accurate. The excess of the valuation over net book value as at 31 March 2020 of those sites was £11.8 million (2019: £11.2 million). In accordance with the Company's accounting policies, this surplus has not been incorporated into these financial statements.

12. Investment properties

	2020 £'000
Cost	
At 1 April 2019 and 31 March 2020	9,650
Accumulated depreciation	
At 1 April 2019	1,481
Depreciation for the year	117
At 31 March 2020	1,598
Net book value	
At 31 March 2020	8,052

Depreciation and impairment charges of £117,000 (2019: £108,000) in respect of Investment properties is recognised within Administration Expenses in the Income Statement.

The Company owns a freehold property which is leased out to a third-party motor retail group, and accordingly accounts for the property as an investment property. In the prior year, an impairment charge of £400,000 was recognised in the Income Statement, as part of Administration Expenses. 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.

The fair value measurement of the CGU in its entirety was categorised as a Level 3 within the hierarchy set out in IFRS 13 Fair Measurement. The valuation technique that is used to measure the fair value less costs of disposal is consistent with that applied in respect of the Company's property, plant and equipment which is set out in note 11. 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: 6.7% and 7.0% respectively
- Costs of disposal: 1.5% of fair value

As described in note 12, the total excess of the valuation over net book value as at 31 March 2020 was £11.8 million (2019: £11.2 million). Investment properties accounted for £0.7 million (2019: £0.4 million) of this surplus.

13. Net investment in lease

	2020 £'000	2019 £'000
Due after more than one year	730	—
Due within one year	178	—
At 31 March 2020	908	—

The Company implemented IFRS 16 with effect from 1 April 2019 and the accounting policy adopted is set out in detail on pages 56 and 57.

The premises shown above are sub-let to a third-party under a lease which has the same terms and duration as the Company's own lease.

14. Goodwill

	2020	2019
	£'000	£'000
Group and Company:		
Cost		
At 1 April 2019 and 31 March 2020	481	481
Provision for impairment		
At 1 April 2019 and 31 March 2020	195	195
Carrying amounts allocated to CGUs		
Volkswagen, Brighton	200	200
Audi, Eastbourne	86	86
At 31 March 2020	286	286

For the purposes of the annual impairment testing, goodwill is allocated to a CGU. Each CGU is allocated against the lowest level within the entity at which 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 with 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 2020 and 2019.

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 note 11. 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.

Period of specific projected cash flows (Volkswagen, Brighton CGU)

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 2020 to 31 March 2025. These projections are based on the most recent budget which has been approved by the board being the budget for the year ending 31 March 2021. The 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 on external sources of 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 -25% (2019: -5%) to 131% (2019: 70%) have been used to forecast cash flows for a further four years beyond the budget period, through to 31 March 2025. These growth rates reflect the products and markets in which the CGU operates. These growth rates do not give rise to an impairment. Growth rates are internal forecasts based on a combination of internal and external 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 was 12.4% (2019: 12.4%).

Terminal growth rate

The cash flows subsequent to the forecast period are extrapolated into the future over the useful economic life of the CGU using a steady or declining growth rate that is 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 used in the value in use calculations to arrive at a terminal value is 0.5% (2019: 0.5%). Terminal growth rates are based on management's estimate of future long-term average growth rates.

Conclusion

At 31 March 2020, no impairment charge in respect of goodwill was identified (2019: 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.

15. Inventories

	2020 £'000	2019 £'000
Group and Company:		
Vehicles	21,395	21,903
Vehicles on consignment	17,408	11,502
Oil, spare parts and materials	920	1,058
Work in progress	5	5
At 31 March 2020	39,728	34,468

	2020 £'000	2019 £'000
Group and Company:		
Inventories recognised as an expense during the year	164,996	176,594
Inventories stated at fair value less costs to sell	810	957
Carrying value of inventories subject to retention of title clauses	25,541	20,789

All vehicle inventories held under consignment stocking arrangements 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. Inventories can be held on consignment for a maximum consignment period set by the manufacturer, which is generally between 180 and 365 days. Interest is payable in certain cases for part of the consignment period, at various rates indirectly linked to the Bank of England base rate.

During the year, £39,000 was recognised in respect of the write-down of inventories of spare parts due to general obsolescence (2019: 43,000).

16. Trade and other payables

	2020 £'000	2019 £'000
Trade payable	10,918	17,209
Obligations relating to consignment stock	17,408	11,502
Vehicle stocking loans	7,315	7,860
Social security and other taxes	549	1,157
Accruals	1,283	1,493
Deferred income	592	590
Other creditors	281	75
Group total	38,346	39,886
Amounts owed to Group undertakings	250	250
Company total	38,596	40,136

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for these trade-related purchases is 25 days (2019: 24 days).

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

The Group finances the purchases of new car inventory through the use of consignment funding facilities provided by its manufacturer partners and which are shown above as Obligations relating to consignment stock. Vehicles are physically supplied by the manufacturers with payment deferred until the earlier of the registration of the vehicle or the end of the consignment period, generally 180 days. In certain circumstances consignment periods can be extended with the agreement of the manufacturer. The consignment funding facilities attract interest at a commercial rate.

The Group utilises vehicle stocking loans to assist with the purchase of certain used car inventory. Facilities are available from both its manufacturer partners and a third-party finance provider and are generally available for a period of 90 days from the date of purchase. These vehicle stocking loans attract interest at a commercial rate. Interest charges on consignment stocking loans and vehicle stocking loans described above for the year ended 31 March 2020 were £741,000 (2019: £648,000).

The obligations relating to consignment stock are all subject to retention of title clauses for the vehicles to which they relate. Obligations for used and demonstrator cars which have been funded are secured on the vehicles to which they relate and are shown above as vehicle stocking loans. 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.

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

	2020 £'000	2019 £'000
At 1 April 2019	590	590
Utilisation of deferred income in the year	(1,300)	(1,216)
Income received and deferred in the year	1,302	1,216
At 31 March 2020	592	590

17. Deferred tax

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

	Accelerated tax depreciation £'000	Unrealised capital gains £'000	Retirement benefit obligations £'000	Sale of Business/ tax losses £'000	Short-term temporary differences £'000	Recoverable ACT £'000	Total £'000
At 1 April 2019	(928)	(1,357)	1,458	—	(8)	835	—
Change in tax rates and prior year adjustments	117	(409)	17	—	(1)	—	(276)
Timing differences	(131)	76	(59)	28	(14)	—	(100)
Recognised in other comprehensive income	—	—	376	—	—	—	376
At 31 March 2020	(942)	(1,690)	1,792	28	(23)	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 of 19% of taxable profits less shadow ACT calculated at 25% of shareholder ordinary 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 (2019: £1,136,000) and shadow ACT is £845,000 (2019: £694,000).

Deferred 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:

	2020 £'000	2019 £'000
Deferred tax liabilities	(2,655)	(2,293)
Deferred tax assets	2,655	2,293
At 31 March 2020	—	—

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.

Trading losses of £147,000 (2019: £Nil) are available for use in future periods.

18. Notes to the cash flow statement

	2020 £'000	2019 £'000
Profit/(loss) before tax for the year	103	(428)
Adjustments for net finance expense	1,569	1,403
	1,672	975
Adjustments for:		
Depreciation of property, plant and equipment, investment properties and right-of-use assets	1,793	1,356
Impairment against property, plant and equipment and investment properties	—	945

Cash payments into the defined-benefit pension scheme	(523)	(511)
Loss on disposal of property, plant and equipment	2	6
Share-based payments	56	56
Operating cash flows before movements in working capital	3,000	2,827
Decrease/(increase) in inventories	646	(1,662)
Decrease in receivables	4,479	1,395
(Decrease)/increase in payables	(7,422)	2,500
Cash generated by operations	703	5,060
Tax paid, net of refunds	(147)	(120)
Interest paid	(1,358)	(1,181)
Net cash (absorbed)/derived from operating activities	(802)	3,759

Reconciliation of debt

Group and Company:	Bank loans £'000	Revolving credit facility £'000	Bank overdrafts, net of cash in hand £'000	Lease Liabilities £'000	Preference shares £'000	Net debt £'000
At 1 April 2019	9,500	4,000	92	2,038	812	16,442
Movement	(781)	—	3,430	(185)	—	2,464
At 31 March 2020	8,719	4,000	3,522	1,853	812	18,906
Current liabilities	875	—	3,522	491	—	4,888
Non-current liabilities	7,844	4,000	—	1,362	812	14,018
At 31 March 2020	8,719	4,000	3,522	1,853	812	18,906

The Company implemented IFRS 16 Leases with effect from 1 April 2019 which resulted in the reclassification of two leases with an assumed asset and liability value of £2,038,000.

19. 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 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 all technical measures does not adversely impact fuel consumption figures, CO₂ 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.

Notwithstanding the above, claims on behalf of multiple claimants, arising out of or in relation to their purchase or acquisition on finance of a Volkswagen Group vehicle affected by the NOx issue, have been brought against a number of Volkswagen entities and dealers, including Caffyns. Caffyns has been named as a Defendant on 14 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. In total, there are 313 claims being jointly brought against Caffyns.

In December 2019, a hearing took place in the High Court of England and Wales on two preliminary 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?"

Judgment was received on 30 March 2020. On the first preliminary issue, the Court found that it was bound by the KBA's ordinance that the software was a defeat device. The same was not true in relation to the VCA. On the second preliminary issue, the court found that the software was a prohibited defeat device. Volkswagen Group is seeking permission from the Court of Appeal to appeal this judgment.

At present, no timetable has been set for the remainder of the case; the relevant issues of liability, loss and causation are not yet decided. It is therefore too early to assess reliably the merit of any claim and so we cannot confirm that any future outflow of resources is probable.

Volkswagen Group has agreed to indemnify the Company for the reasonable legal costs of defending the litigation and any damages and adverse legal costs that the Company 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 the Company resulting from the defence of the litigation is remote.

Accordingly, no provision for liability has been made in these financial statements.