

Caffyns plc

Preliminary Results for the year ended 31 March 2022

Summary

	2022 £'000	2021 £'000
Revenue	223,928	165,085
Underlying EBITDA (see note A)	7,712	5,124
Underlying profit before tax (see note A)	4,574	1,876
Profit before tax	4,385	1,424
	pence	pence
Underlying earnings per share	117.0	66.0
Earnings per share	111.3	52.4
Proposed final dividend per ordinary share	15.0	—
Dividend per ordinary share for the year	22.5	—

Note A: Underlying results exclude items that have non-trading attributes due to their size, nature or incidence. Non-underlying items for the year totalled a charge of £189,000 (2021: £452,000) and are detailed in Note 2 to these consolidated financial statements. Underlying EBITDA of £7,712,000 (2021: £5,124,000) represents Operating profit before non-underlying items of £5,690,000 (2021: £3,142,000) adding back Depreciation and Amortisation of £2,022,000 (2021: £1,982,000).

Overview

- Revenue up 36% to £223.9 million (2021: 165.1 million) due to a buoyant used car market
- Like-for-like new car unit deliveries up by 7%
- Like-for-like used car unit sales up by 24%
- Like-for-like aftersales revenues up by 19% to £19.2 million
- Underlying profit before tax of £4.6 million (2021: £1.9 million)
- Final dividend of 15.0 pence per ordinary share (2021: nil pence per ordinary share)
- Net bank borrowings at 31 March 2022 as disclosed in note 21 were £10.4 million (2021: £10.3 million)
- Property portfolio revaluation at 31 March 2022 showed a £13.3 million surplus (2021: £12.3 million surplus) to net book value (not recognised in these accounts)

Like-for-like comparisons exclude the impact of the Lotus and MG businesses at Ashford, both of which were opened during the year under review. All other businesses operated for the full twelve-month period in both years

Commenting on the results Simon Caffyn, Chief Executive, said: *“The underlying profit before tax of £4.6 million was a significant improvement on the prior year. Despite limited new car supply, operating profits improved due to very buoyant trading in used cars and our strong focus on improving operational effectiveness.*

The outlook will depend on consumer confidence, but we carry forward a strong new car order book and have substantially strengthened our balance sheet”

Enquiries:

Caffyns plc

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Operational and Business Review

Summary

The underlying profit before tax of £4.6 million for the financial year ended 31 March 2022 (“the year”) was a significant improvement on the £1.9 million recorded for the prior year. Full year turnover increased by 36% to £223.9 million (2021: £165.1 million), predominantly from significantly higher levels of car deliveries. Operating margins improved significantly to £5.7 million (2021: £2.9 million) due to very buoyant trading in used cars and a strong focus on improving operational effectiveness.

Our statutory profit before tax for the year was £4.4 million (2021: £1.4 million). Basic earnings per share for the year were 111.3 pence (2021: 52.4 pence). Underlying earnings per share for the year were 117.0 pence (2021: 66.0 pence).

The Company’s defined-benefit pension scheme deficit, calculated in accordance with the requirements of IAS 19 Pensions, reduced significantly to £2.8 million at 31 March 2022 (2021: £9.4 million). Investment gains in the Scheme’s investments were strong and combined with reductions to the net present value of the Scheme’s liabilities. The Company also made an additional £1.0 million cash contribution to the pension scheme in the year to assist with reducing the deficit position.

The Company continues to own all but two of the freeholds of the properties from which it operates, and this provides the dual strengths of a strong asset base and minimal exposure to rent reviews.

The board was able to restart the payment of dividends during the year with an interim dividend of 7.5 pence. The board is proposing a final dividend for the year of 15.0 pence (2021: nil pence per ordinary share).

Net bank borrowings at 31 March 2022 were £10.4 million (2021: £10.3 million), which equated to gearing of 30% (2021: 37%).

Covid-19

The Company started the financial year with its car showrooms temporarily closed and able to operate only on a “click-and-collect” basis. However, by mid-April 2021 we were able to fully reopen and for the remainder of the financial year were able to operate as usual, albeit with certain social-distancing precautions remaining in place.

In April 2021, 88 employees, around one-fifth of the total workforce, remained on furlough under the Government’s Coronavirus Job Retention Scheme but we were able to return those employees to the workplace over the spring and summer months and we ceased to utilise the scheme from August. Grants received in the year amounted to £0.1 million. The business also continued to benefit from the business rates holiday for retail premises, which provided a year-on-year saving of £0.8 million. This holiday expired on 31 March 2022. We remain grateful to the Government for the actions that it took to protect employment during lockdown periods where activity levels were suppressed and there was insufficient work to occupy certain employees.

Whilst covid-19 infection levels remained at elevated levels it was pleasing to see a waning of the impact of the covid pandemic on the business as the year progressed. Through careful management of the workplace, we were able to successfully manage staff absences and to continue to offer an environment that our customers were happy to visit and transact in.

Omni-channel retailing

Our omni-channel offering allows customers to interact with us in a way that suits them best, from the traditional showroom discussion through to a fully online sales process, and any combination in between. We learnt a great deal during the lockdown periods of the pandemic and were able to introduce new options which significantly advanced our on-line selling capabilities. These have been further enhanced in the current year allowing us to provide our customers with a full omni-channel approach to purchasing their vehicle.

Our People

I am very grateful for the dedication of our employees and the effort they applied throughout the year to provide our customers with a first-class experience. Their response to the covid-19 pandemic has been outstanding. We have been, and remain, very focused on the health and safety of our employees and customers, ensuring that our showroom and workshop activities are undertaken in a responsible and socially distanced way. As a result of the hard work and professionalism shown by everyone involved, we have successfully navigated the covid pandemic to leave the business in a strong position.

The Company has a long tradition of investing in apprenticeship programmes. Despite the pressures on the business, 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 Government apprenticeship 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 which will assist the Company to continue to grow.

New and used car sales

Total UK new car registrations in the year increased by 4% as the impacts of the covid-19 pandemic waned. However, the global shortage of semiconductors throughout the year disrupted the production of new cars and, more recently, the conflict in Ukraine added additional strains to supply chains, further restricting increases in registrations. Within the total, new car registrations in the private and small business sector, in which we principally operate, rose by 19%. Our own new car deliveries rose by 7% on a like-for-like basis, which was in line with the movement for those manufacturers that we represent.

Our volume of used cars sales also rose, by 24%, on a like-for-like basis. The shortage of new car product created a strong used car market and, together with enhanced controls, we were able to retain significantly enhanced unit margins. Great efforts have been made over the last twelve months to further enhance and develop our omni-channel offering for our customers and we continue to see this providing a major opportunity for further growth. The number of used cars sold again exceeded the number of new cars sold in the year. Procedures have been strengthened to monitor and control used car stock turn and yield and to broaden our sources of replenishing inventory.

The Company's total revenues for the year increased by £58.8 million over the previous year, of which £56.6 million arose from the sale of new and used cars.

Aftersales

The impact of the covid-19 pandemic on our aftersales business reduced during the year and we were encouraged that our service revenues in the year rose by 8% 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 higher sales, up by 25% on a like-for-like basis from the previous year.

Operations

Our Audi businesses produced another exceptional performance in the year, significantly growing both their new and used car deliveries.

The performance of our Volkswagen businesses improved in the year boosted by the strength of the brand, the excellent model range, and exciting new products.

Our Volvo businesses also enjoyed very strong performances in the year. Both businesses, in Worthing and in Eastbourne, performed very well. The Eastbourne result was especially commendable given the business was heavily disrupted by building works throughout much of the year as the site underwent a significant refurbishment. The brand continues to reap the benefits of an excellent model range of cars, which are being positively received by customers.

In Tunbridge Wells, our combined SEAT/Skoda business continued to perform well and our Skoda business in Ashford recorded an excellent result, significantly ahead of the prior year.

Our Vauxhall business in Ashford performed in line with our expectations in the year.

During the year we opened businesses for Lotus and MG, adjacent to our existing Vauxhall operation in Ashford. The board was encouraged with their first year of trading.

Trading at Caffyns Motorstore, our used car business in Ashford, remained subdued as the business suffered from disruptions from building works to accommodate the new franchises of Lotus and MG. However, the performance improved in the year and we remain reassured that the concept continues to be well received by our customers, who particularly value the reassurance of the Caffyns brand.

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 further 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 the buying process, as well as improving aftersales retention.

New brands and models

We continue to invest in enhanced facilities to allow us to sell and service our manufacturers' ever-increasing range of electric and hybrid vehicles. During the year we also added two new brands to our portfolio, both based at existing premises in Ashford. Lotus, which is part of the Zhejiang Geely group that also owns Volvo, and MG, a subsidiary of SAIC, commenced trading in July 2021. Both of these brands have battery-powered electric products and MG offers outstanding value for money in this field. We will shortly be expanding our representation with Lotus with the opening of a new dealership for Sussex, in Lewes.

Property

We operate primarily from freehold sites which 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 2022 was £13.3 million (2021: £12.3 million). In accordance with our accounting policies, this surplus has not been incorporated into our accounts.

During the year, we incurred capital expenditure of £2.9 million (2021: £0.4 million). There was one major property development project in the year, which was the expansion and complete refurbishment of our Volvo premises in Eastbourne. The remaining spend reflected a mixture of further installations of electric charging points and replacement spend on existing assets.

The lease to the purchaser of our former Land Rover business in 2016, for our freehold premises in Lewes, terminated on 9 June 2021 and the property was returned to us. Our current intention is to dispose of the premises and we expect to exchange contracts shortly. Completion of the sale will be dependent on the purchaser gaining an appropriate planning consent and the board expects this will take at least two years. Due to the uncertainty of a successful outcome to the planning process, the property has continued to be shown as an investment property on the Company's balance sheet.

The Company operates two of its franchised businesses from leased premises as well as having a leased vehicle storage compound, which are shown on the balance sheet as right of use assets. During the year, management reassessed its likely future requirement for one of those premises and, as a result, extended its estimate of the duration of its stay. As a result, the valuation of that lease increased by £1.0 million, equal and opposite to an increase in its lease liability.

The Company has agreed with Volvo UK to relocate its business in Worthing to a new-build facility, adjacent to its existing Audi operation at Angmering. Planning permission for the new facility is being sought and construction is expected to start once a planning consent is granted, with the new facility expected to be available to open in 2023.

Bank facilities and borrowings

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 £6.0 million, both of which will next become renewable in April 2026. HSBC also provides an overdraft facility of £3.5 million, renewable annually. The Company continues to enjoy a supportive relationship with HSBC and successfully refinanced its borrowings in March 2022, twelve months in advance of the scheduled review date for the facilities. The refinancing did not affect the market value of the Company's borrowings.

In addition to its facilities with HSBC, the Company also has a revolving-credit facility of £4.0 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 March 2024.

The term loan and revolving credit facilities provided by HSBC include certain covenant tests which were comfortably passed at the year-end on 31 March 2022. Any failure of a covenant test would render these facilities repayable on demand at the option of the lender.

During the year, cash generated by operating activities was £3.4 million (2021: £6.7 million). This reflected the deficit-reduction payment of £1.0 million made to the Company's defined-benefit pension scheme as part of the recovery plan to the March 2020 triennial valuation, as well as outflows associated with working capital movements. Other significant cash movements in the year included capital expenditure of £2.8 million (2021: £0.4 million) and repayment of bank revolving-credit facilities and term loans of £2.9 million (2021: £1.7 million). Cash balances held at 31 March 2022 were £5.7 million, a reduction of £3.0 million from the previous year-end.

Bank borrowings, net of cash balances, at 31 March 2022 were £10.4 million (2021: £10.3 million) and as a proportion of shareholders' funds at 31 March 2022 were 30% (2021: 37%). This reduction in gearing level reflected the strong financial result for the year as well as a significant narrowing of the deficit in the Company's defined-benefit pension scheme. Available but undrawn facilities with HSBC and Volkswagen Bank at 31 March 2022 were £10 million (2021: £16 million) owing to the reduction in certain facility levels in the year, in agreement with the Company's bank lenders.

Taxation

The year ended 31 March 2022 resulted in a tax charge of £1.39 million (2021: £0.01 million). The effective tax rate for the year was higher than the standard rate of corporation tax in force for the year of 19% due to the effect on deferred tax liabilities of the scheduled increase in the corporation tax rate to 25% in 2023. In the prior year, the effective tax rate was significantly lower than the standard rate of corporation tax in force for the year of 19% due to the reversal of an impairment provision against the carrying value of an Advanced Corporation Tax ("ACT") asset.

The Company has no current outstanding trading losses awaiting relief (2021: £Nil). There are also 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 £7.1 million (2021: £8.3 million) which could equate to a future potential tax liability of £1.8 million (2021: £1.6 million). The Company was able to utilise £0.6 million of its ACT in the year, leaving an amount carried forward to future trading periods of £0.5 million (2021: £1.1 million).

Pension Scheme

The Company's defined benefit scheme was closed to future accrual in 2010. The board has little control over the key assumptions in the valuation calculations as required by accounting standards and the low yields of gilts and bonds continue to have a significant impact on the net funding position of the scheme. At 31 March 2022 the deficit was £2.8 million (2021: £9.4 million). The deficit, net of deferred tax, was £2.1 million (2021: £7.6 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 considered.

The pension cost under IAS 19 is charged as a non-underlying cost and amounted to £0.2 million in the year (2021: £0.2 million).

During the year, the latest formal triennial valuation of the Scheme, effective 31 March 2020, was completed with the valuation being formally submitted to the Pensions Regulator in June 2021. A recovery plan to address the Scheme deficit identified from this triennial valuation was agreed with the trustees under which the annual recovery plan payment would increase from £0.5 million to £0.8 million, with an additional one-off contribution of £1.0 million, which was paid in June 2021. The recurring annual recovery plan payment for each subsequent year will then increase by 2.25%, until superseded by any future new recovery plan to be agreed between the Company and the trustees. Therefore, the Company made deficit-reduction contributions into the Scheme during the year of £1.8 million (2021: £0.5 million).

Dividend

The uncertainty caused by the covid-19 pandemic resulted in the Company temporarily pausing its dividend payments to shareholders. The board is aware of the importance of dividend payments to its shareholders and remained committed to restarting dividend payments once it was appropriate to do so. The judgement of the board was that the performance of the business in the first half of the year meant that it would be appropriate to restart dividend payments and, accordingly, the board declared an interim dividend of 7.5 pence per ordinary share (2021: Nil pence per ordinary share). The board is also declaring a final dividend for the year of 15.0 pence (2021: Nil pence per ordinary share) which will be paid on 9 August 2022 to those shareholders on the register at close of business on 8 July 2022, subject to shareholder approval at the 2022 Annual General Meeting. The ordinary shares will be marked ex-dividend on 7 July 2022.

Strategy

Our continuing strategy is to focus on growing our loyal customer base through representing premium and premium-volume franchises, maximising opportunities for premium used cars and delivering an excellent after sales service. 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 business.

We are concentrating on business opportunities in stronger markets to deliver higher returns from fewer but bigger sites. We continue to seek to deliver performance improvement, in particular in our used car and aftersales operations, and to enhance both the purchasing and after sales experience for our customers.

Annual General Meeting

The Annual General Meeting will be held on 2 August 2022. As no regulations remain in place regarding social distancing, it is intended that the Annual General Meeting will be an open meeting, to which shareholders will be invited to attend in person.

Outlook

We have started the new financial year with a sense of optimism, although we are mindful of disruptions to manufacturers' supply chains and dependent upon consumer confidence. We continue to enjoy supportive relationships with our banking partners, HSBC and Volkswagen Bank, with available but undrawn facilities at the year-end in excess of £10 million. The balance sheet is appropriately funded and our freehold property portfolio is a source of stability. We remain confident in the prospects of the Company and are ready to exploit future business opportunities.

S G M Caffyn

Chief Executive
26 May 2022

Group Income Statement

for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Revenue		223,928	165,085
Cost of sales		(191,982)	(142,304)
Gross profit		31,946	22,781
Operating expenses			
Distribution costs		(17,442)	(13,481)
Administration expenses		(9,227)	(7,317)
Operating profit before other income		5,277	1,983
Other income (net)		390	909
Operating profit		5,667	2,892
Operating profit before non-underlying items		5,690	3,142
Non-underlying items within operating profit	5	(23)	(250)
Operating profit		5,667	2,892
Finance expense	6	(1,116)	(1,266)
Finance expense on pension scheme		(166)	(202)
Net finance expense		(1,282)	(1,468)
Profit before taxation		4,385	1,424
Profit before tax and non-underlying items		4,574	1,876
Non-underlying items within operating profit	5	(23)	(250)
Non-underlying items within finance expense on pension scheme	5	(166)	(202)
Profit before taxation		4,385	1,424
Taxation	7	(1,386)	(14)
Profit for the year		2,999	1,410
Earnings per share			
Basic	8	111.3p	52.4p
Diluted	8	109.6p	52.1p
Underlying earnings per share			
Basic	8	117.0p	66.0p
Diluted	8	115.2p	65.6p

Group Statement of Comprehensive Income

for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Profit for the year		2,999	1,410
Items that will never be reclassified to profit and loss:			
Remeasurement of net defined benefit liability		5,045	(301)
Deferred tax on remeasurement	17	(1,261)	57
Effect of change in deferred tax rate	17	511	—
Total other comprehensive income/(expense), net of taxation		4,295	(244)
Total comprehensive income for the year		7,294	1,166

Group Statement of Financial Position

at 31 March 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Right-of-use assets	10	1,413	610
Property, plant and equipment	11	38,975	37,624
Investment properties	12	7,646	7,751
Interest in lease	13	389	557
Goodwill	14	286	286
Deferred tax asset	17	—	412
		48,709	47,240
Current assets			
Inventories	15	27,546	36,562
Trade and other receivables		5,264	5,072
Interest in lease	13	168	173
Current tax recoverable		40	34
Cash and cash equivalents		2,759	5,735
		35,777	47,576
Total assets		84,486	94,816
Current liabilities			
Interest-bearing bank overdrafts and loans		1,875	3,875
Trade and other payables	16	29,495	39,338
Lease liabilities		496	495
Current tax payable		236	306
		32,102	44,014
Net current assets		3,675	3,562
Non-current liabilities			
Interest-bearing bank loans		11,312	12,187
Lease liabilities		1,434	783
Deferred tax liability	17	1,298	—
Preference shares		812	812
Retirement benefit obligations		2,797	9,434
		17,653	23,216
Total liabilities		49,755	67,230
Net assets		34,731	27,586
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		30,589	23,444
Total equity attributable to shareholders		34,731	27,586

Group Statement of Changes in Equity

for the year ended 31 March 2022

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non- distributable reserve £'000	Retained Earnings £'000	Total £'000
At 1 April 2021	1,439	272	707	1,724	23,444	27,586
Total comprehensive income						
Profit for the year	—	—	—	—	2,999	2,999
Other comprehensive income	—	—	—	—	4,295	4,295
Total comprehensive income	—	—	—	—	7,294	7,294
Transactions with owners:						
Dividends	—	—	—	—	(202)	(202)
Issue of shares - SAYE	—	—	—	—	—	—
Share-based payment	—	—	—	—	53	53
At 31 March 2022	1,439	272	707	1,724	30,589	34,731

for the year ended 31 March 2021

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non- distributable reserve £'000	Retained Earnings £'000	Total £'000
At 1 April 2020	1,439	272	707	1,724	22,238	26,380
Total comprehensive Income/(expense)						
Profit for the year	—	—	—	—	1,410	1,410
Other comprehensive expense	—	—	—	—	(244)	(244)
Total comprehensive income	—	—	—	—	1,166	1,166
Transactions with owners:						
Issue of shares - SAYE	—	—	—	—	3	3
Share-based payment	—	—	—	—	37	37
At 31 March 2021	1,439	272	707	1,724	23,444	27,586

Group Cash Flow Statement

for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Net cash inflow from operating activities	18	3,390	6,724
Investing activities			
Proceeds on disposal of property, plant and equipment		—	—
Purchases of property, plant and equipment		(2,837)	(394)
Receipt from investment in lease		185	185
Net cash outflow from investing activities		(2,652)	(209)
Financing activities			
Revolving-credit facility repaid		(2,000)	(2,000)
Revolving-credit facility utilised		—	1,000
Secured loans repaid		(875)	(657)
Bank refinancing arrangement fees		(98)	—
Issue of shares – SAYE scheme		—	3
Dividends paid		(202)	—
Repayment of lease liabilities		(539)	(604)
Net cash outflow from financing activities		(3,714)	(2,258)
Net (decrease)/increase in cash and cash equivalents		(2,976)	4,257
Cash and cash equivalents at beginning of year		5,735	1,478
Cash and cash equivalents at end of year		2,759	5,735

Notes

for the year ended 31 March 2022

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 26 May 2022.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards ("IFRS") as adopted in the United Kingdom.

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 2022, but is derived from those accounts. Statutory accounts for the year ended 31 March 2021 have been delivered to the Registrar of Companies and those for the year ended 31 March 2022 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 2022 will be available at www.caffynsplc.co.uk and will be posted to shareholders by 8 July 2022.

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 of one year from the date of approval of this Annual Report. This has focused primarily on the achievement of the banking covenants, which have all been achieved for the year under review.

Under the Company's first covenant test, it is required to make underlying earnings before bank interest, depreciation and amortisation ("senior EBITDA") for the rolling twelve-month period to 31 March 2022, which is at least four times the level of interest payable on bank borrowings to HSBC and Volkswagen Bank ("senior interest"). The Company's second covenant test requires total bank borrowings to HSBC and Volkswagen Bank at 31 March 2022 not to exceed 375% of senior EBITDA for the rolling twelve-month period to 31 March 2022.

The Company's final covenant test requires that the level of its bank borrowings do not exceed 70% of the independently assessed value of its charged freehold properties.

In the coming twelve months, each of the three covenant tests must be passed at 30 June 2022, 30 September 2022, 31 December 2022 and 31 March 2023, with the test on 31 March 2023 being the final test to be carried out within the twelve-month period from the anniversary of the signing of these financial statements. The Company has modelled this period and conclude that there is headroom that would allow for an approximate 10% 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 are forecast to show a year-on-year increase of 5% in 2022 to 1.72 million, with a further 17% increase into 2023 to 2.02 million registrations as the global shortage in semiconductors end allowing manufacturing levels to rise. The used car market has remained stable over

the five years from 2015 to 2019, at between 7.6 and 8.2 million transactions and dropped by only 15% in 2020 due to the effects of the covid-19 pandemic, compared to a comparable 29% fall in new car registrations. Since showrooms reopened in April 2021, demand for used cars has been buoyant and transactions grew by 12 % in 2021. The continuing shortage in new car supply has assisted the used car market, and is expected to continue to do so. The Company's financial results in the year under review were robust and the current new car order take held for future delivery is at elevated levels.

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 £6.2 million and a revolving credit facility of £6.0 million from HSBC, its primary bankers, with both facilities being renewable in April 2026. HSBC also make available a short-term overdraft facility of £3.5 million, which is renewed annually in August. The Company also has a ten-year term loan from Volkswagen Bank with a balance outstanding at 31 March 2022 of £1.0 million, which is repayable to March 2024, and a short-term revolving-credit facility of £4.0 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 12 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 a period of one year 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. At 31 March 2022, the net liability included in the Statement of Financial Position was £2.8 million (2021: £9.4 million).

Impairment

The carrying value of property, plant and equipment and goodwill are tested annually for impairment as described in notes 11, 12, 13 and 15 to the financial statements. 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 15). As a result of this review the directors considered that no impairments were required to the carrying value of its property assets (2021: £184,000 to a single property asset) (see notes 11, 12, 13 and 15).

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. 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 2024.

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.

In November 2018, 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) that 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 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.

In December 2019, the Company separately received a contribution of £225,000 from a brand partner as support for establishing a new franchise business. In the judgement of the directors, and having considered all information available, the directors determined it appropriate to account for the contribution as revenue in nature, with the support to be allocated on a straight-line basis over the first 24 months of operation of the new business. The launch of the new business was delayed by the covid-19 pandemic with the business unable to commence trading until car showrooms were allowed to re-open in June 2020. As a result, £93,750 of the £225,000 support package was recognised in the Income Statement for the prior year with a further £112,500 being recognised in the Income Statement for the current year. It is expected that the remaining £18,750 will be recognised in the Income Statement for the year ending 31 March 2023.

5. Non-underlying items

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

	2022 £'000	2021 £'000
Net loss on disposal of property, plant and equipment	—	(3)
Other income, net	—	(3)
Within operating expenses:		
Service cost on pension scheme	(23)	(23)
Redundancy and restructuring costs	—	(40)
Property impairments	—	(184)
	(23)	(247)
Non-underlying items within operating profit	(23)	(250)
Net finance expense on pension scheme	(166)	(202)
Non-underlying items within net finance expense	(166)	(202)
Total non-underlying items before taxation	(189)	(452)
Taxation credit on non-underlying items	36	86
Total non-underlying items after taxation	(153)	(366)

In the prior period, the following amounts have been presented as non-underlying items:

- redundancy and restructuring costs of £40,000 were incurred in the year as a result of changes necessitated by the covid-19 pandemic;
- the carrying value of a freehold property was impaired by a total of £184,000 following advice from the Company's independent valuer, CBRE Limited (see notes 11 and 12).

6. Finance expense

	2022 £'000	2021 £'000
Interest payable on bank borrowings	297	367
Interest payable on inventory stocking loans	581	681
Interest on lease liabilities	37	21
Finance costs amortised	141	125
Preference dividends (see note 9)	72	72
Finance income on interest in lease	(12)	—
Finance expense	1,116	1,266

7. Tax

	2022 £'000	2021 £'000
Current tax		
UK corporation tax	432	401
Adjustments recognised in the period for current tax of prior periods	(5)	(33)
Total charge	427	368
Deferred tax (see note 17)		
Origination and reversal of temporary differences	312	(381)
Change in corporation tax rate	647	—
Adjustments recognised in the period for deferred tax of prior periods	—	27
Total charge/(credit)	959	(354)
Tax charged in the Income Statement	1,386	14

	2022 £'000	2021 £'000
The tax charge arises as follows:		
On normal trading	1,422	100
On non-underlying items (see note 5)	(36)	(86)
Tax charged in the Income Statement	1,386	14

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

	2022 £'000	2021 £'000
Profit before tax	4,385	1,424
Tax at the UK corporation tax rate of 19% (2021: 19%)	833	271
Tax effect of expenses that are not deductible in determining taxable profit	126	133
Other differences	—	34
Effect of change in corporation tax rate	647	—
Movement in rolled over and held over gains	(215)	(117)
Reversal of impairment of Advanced Corporation Tax asset	—	(301)
Adjustment to tax charge in respect of prior periods	(5)	(6)
Tax charge for the year	1,386	14

The current year total tax charge is impacted by the effect of non-deductible expenses, which includes non-qualifying depreciation; and one-off rate change adjustments to take into account the legislative increase in the corporation tax rate to 25% in 2023.

In the prior year an impairment provision against the carrying value of an Advanced Corporation Tax asset was reversed. This impairment was initially made in the year ended 31 March 2019 at which time management did not recognise an overall deferred tax asset due to the inherent uncertainty at that date. This approach remained unchanged at the previous year end, with 31 March 2020 being immediately after the start of the first covid-19 lockdown, and at the height of the accompanying economic uncertainty, but was altered at the half-year, at 30 September 2020. Forecasts prepared by management at that time, extending across a five year period, reflected an improvement to the levels of profits and these forecasts allowed the previously held view to be revised and the impairment to be reversed, given management's judgement of a higher level of certainty that the available Advanced Corporation Tax and other deferred tax assets would be utilised in future years.

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

	2022 £'000	2021 £'000
Total current tax charge	427	368
Deferred tax credit/(charge)		
(Charged)/credited in the Income Statement	959	(354)
Charged/(credited) against other comprehensive income	750	(57)
Total deferred tax charge	1,709	(411)
Total tax charge/(credit) for the year	2,136	(43)

Factors affecting the future tax charge

The Company has unrelieved advance corporation tax of £0.5 million (2021: £1.1 million), which is available to be utilised against future mainstream corporation tax liabilities and is accounted for in deferred tax (see note 24).

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	
	2022 £'000	2021 £'000	2022 £'000	2021 £'000
Profit before tax	4,385	1,424	4,385	1,424
Adjustments:				
Non-underlying items (note 5)	189	452	—	—
Profit before tax	4,574	1,876	4,385	1,424
Tax (note 7)	(1,422)	(100)	(1,386)	(14)
Profit after tax	3,152	1,776	2,999	1,410
Earnings per share (pence)	117.0p	66.0p	111.3p	52.4p
Diluted earnings per share (pence)	115.2p	65.6p	109.6p	52.1p

	2022 £'000	2021 £'000
Underlying earnings after tax	3,152	1,776
Underlying earnings per share (pence)	117.0p	66.0p
Underlying diluted earnings per share (pence)	115.2p	65.6p
Non-underlying losses after tax	(153)	(366)
Losses per share (pence)	(5.7)p	(13.6)p
Diluted losses per share (pence)	(5.6)p	(13.5)p
Total earnings	3,019	1,410
Earnings per share (pence)	111.3p	52.4p
Diluted earnings per share (pence)	109.6p	52.1p

The number of fully paid ordinary shares in circulation at the year-end was 2,695,502 (2021: 2,695,376). The weighted average number of shares in issue for the purposes of the earnings per share calculation were 2,695,418 (2021: 2,694,846). The shares granted in the year under the Company's SAYE scheme have been treated as dilutive. For the purposes of this calculation, the weighted average number of shares in issue for the purposes of the earnings per share calculation were 2,737,264 (2021: 2,707,660).

9. Dividends

	2022 £'000	2021 £'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 of 7½ pence per ordinary share paid in respect of the current year (2021: Nil pence)	202	—
No final dividend paid in respect of the March 2021 year end (2020: Nil pence)	—	—
	202	—

A final dividend of 15.0 pence per ordinary share was declared in respect of the current year ended 31 March 2022.

10. Right-of-use assets

	2022 £'000
Deemed cost	
At 1 April 2021	1,181
Additions in the year	1,142
At 31 March 2022	2,323
Accumulated depreciation	
At 1 April 2021	571
Depreciation for the year	339
At 31 March 2022	910
Net book value	
At 31 March 2022	1,413

The right-of-use assets above represent three long term property leases for premises from which the Company operates a Volkswagen dealership in Brighton, a Volvo dealership in Worthing and a car storage compound in Tunbridge Wells.

Depreciation charges of £339,000 (2021: £315,000) in respect of right-of-use assets has been recognised within administration expenses in the Income Statement.

The interest expense on the associated lease liability of £37,000 (2021: £21,000) is disclosed in note 6.

Payments made in the year on the above leases were £539,000 (2021: £335,000).

11. Property, plant and equipment

	Freehold property £'000	Leasehold improvements £'000	Fixtures & fittings £'000	Plant & machinery £'000	Total £'000
Cost or deemed cost					
At 1 April 2021	40,752	728	5,350	6,735	53,565
Additions at cost	1,945	—	508	476	2,929
Disposals	—	—	(229)	(2,135)	(2,364)
At 31 March 2022	42,697	728	5,629	5,076	54,130
Accumulated depreciation					
At 1 April 2021	6,113	581	4,091	5,156	15,941
Depreciation charge for the year	616	73	506	383	1,578
Disposals	—	—	(229)	(2,135)	(2,364)
At 31 March 2022	6,729	654	4,368	3,404	15,155
Net book value 31 March 2022	35,968	74	1,261	1,672	38,975

Short-term leasehold property for both the Company and the Group comprises £74,000 at net book value in the Statement of Financial Position (2021: £147,000).

Depreciation charges of £1,578,000 (2021: £1,550,000) in respect of Property, plant and equipment was recognised within Administration Expenses in the Income Statement.

The Company valued its portfolio of freehold premises and investment properties as at 31 March 2022. 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 2022 of those sites was £13.3 million (2021: £12.3 million). In accordance with the Company's accounting policies, this surplus has not been incorporated into these financial statements.

12. Investment properties

	2022 £'000
Cost	
At 1 April 2021 and 31 March 2022	9,650
Accumulated depreciation	
At 1 April 2021	1,899
Depreciation for the year	105
At 31 March 2022	2,004
Net book value	
At 31 March 2022	7,646

Depreciation charges of £105,000 (2021: £301,000) in respect of Investment properties have been recognised within administration expenses in the Income Statement.

The Company owns a freehold property that is partially leased out to a third-party tenant, and accordingly accounts for the property as an investment property. Based on an independent valuation of the property carried out by CBRE, no impairment charges were required to be recognised in the Income Statement, as part of administration expenses (2021: £184,000). 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 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: £195
- Market value of site per acre: £2,472,000
- Initial and reversionary yields: 6.7% and 7.0% respectively
- Costs of disposal: 1.5% of fair value

As described in note 11, the total excess of the valuation of all of the Company's freehold properties over net book value as at 31 March 2022 was £13.3 million (2021: £12.3 million). Investment properties accounted for £0.8 million (2021: £0.6 million) of this surplus.

13. Net investment in lease

	2022 £'000	2021 £'000
Due after more than one year	389	557
Due within one year	168	173
At 31 March 2022	557	730

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

	2022	2021
Group and Company:	£'000	£'000
Cost		
At 1 April 2021 and 31 March 2022	481	481
Provision for impairment		
At 1 April 2021 and 31 March 2022	195	195
Carrying amounts allocated to CGUs		
Volkswagen, Brighton	200	200
Audi, Eastbourne	86	86
At 31 March 2022	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 2022 and 2021.

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 2022 to 31 March 2027. 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 2023. 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 -1% (2021: -1%) to 15% (2021: 176%) have been used to forecast cash flows for a further four years beyond the budget period, through to 31 March 2027. 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. Based on these forecasts, the headroom available on the total future profits is £3.2 million (2021: £2.4 million) before an impairment would be necessary.

Period of specific projected cash flows (Volvo, Worthing CGU)

The recoverable amount of the Volvo, Worthing CGU is based on value in use. Value in use is calculated using cash flow projections for a five-year period from 1 April 2022 to 31 March 2027. 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 2023. 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 -46% (2021: -25%) to 7% (2021: 8%) have been used to forecast cash flows for a further four years beyond the budget period, through to 31 March 2027. 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. Based on these forecasts, the headroom available on the total future profits is £1.1 million (2021: £1.7 million) before an impairment would be necessary.

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% (2021: 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% (2021: 0.5%). Terminal growth rates are based on management's estimate of future long-term average growth rates.

Conclusion

At 31 March 2022, no impairment charge in respect of goodwill was identified (2021: 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

Group and Company:	2022 £'000	2021 £'000
Vehicles	22,561	19,741
Vehicles on consignment	3,969	15,995
Oil, spare parts and materials	1,009	821
Work in progress	7	5
At 31 March 2022	27,546	36,562

Group and Company:	2022 £'000	2021 £'000
Inventories recognised as an expense during the year	185,398	135,348
Inventories stated at fair value less costs to sell	884	708
Carrying value of inventories subject to retention of title clauses	14,675	23,940

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, £25,000 was recognised in respect of the write-down of inventories of spare parts due to general obsolescence (2021: 37,000).

16. Trade and other payables

	2022 £'000	2021 £'000
Trade payable	14,034	14,742
Obligations relating to consignment stock	3,969	15,995
Vehicle stocking loans	7,327	5,100
Social security and other taxes	823	1,173
Accruals	2,732	1,482
Deferred income	532	614
Other creditors	78	232
At 31 March 2022	29,495	39,338

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for these trade-related purchases was 28 days (2021: 33 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 2022 were £581,000 (2021: £681,000).

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 Company deferred payments of VAT of £440,000 under the covid-19 payment deferral scheme operated by HMRC. This VAT was to be settled by eleven equal monthly instalments, with payments having commenced in April 2021. At 31 March 2022, all amounts had been settled (2021: £400,000 outstanding and included in within Social security and other taxes).

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

	2022 £'000	2021 £'000
At 1 April 2021	614	592
Utilisation of deferred income in the year	(1,401)	(1,136)
Income received and deferred in the year	1,319	1,158
At 31 March 2022	532	614

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	Short-term temporary differences £'000	Recoverable ACT £'000	Total £'000
At 1 April 2021	(925)	(1,572)	1,792	(19)	1,136	412
Change in tax rates and prior year adjustments	(225)	(428)	(39)	45	—	(647)
Utilisation of ACT	—	—	—	—	(599)	(599)
Timing differences	210	216	(303)	163	—	286
Recognised in other comprehensive income	—	—	(750)	—	—	(750)
At 31 March 2022	(940)	(1,784)	700	189	537	(1,298)

The Finance Act 2021 introduced an increase in the main corporation tax rate to 25% from 1 April 2023.

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. During the year the Shadow ACT was fully utilised allowing a partial utilisation of the ACT, leaving the remaining value of surplus ACT available for utilisation in future periods at 31 March 2022 of £537,000 (2021: £1,136,000).

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:

	2022 £'000	2021 £'000
Deferred tax liabilities	(2,724)	(2,516)
Deferred tax assets	1,426	2,928
At 31 March 2022	(1,298)	412

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 were no trading losses available for use in future periods (2021: £Nil).

18. Notes to the cash flow statement

	2022 £'000	2021 £'000
Profit before tax for the year	4,385	1,424
Adjustments for net finance expense	1,282	1,468
	5,667	2,892
Adjustments for:		
Depreciation of property, plant and equipment, investment properties and right-of-use assets	2,022	1,982
Impairment against property, plant and equipment and investment properties	—	184
Cash payments into the defined-benefit pension scheme	(1,781)	(526)
Loss on disposal of property, plant and equipment	—	3
Share-based payments	53	37
Operating cash flows before movements in working capital	5,961	4,572
Decrease in inventories	9,016	3,484
Increase in receivables	(94)	(754)
(Decrease)/increase in payables	(9,911)	697
Cash generated by operations	4,972	7,999
Tax paid, net of refunds	(503)	(31)
Interest paid	(1,079)	(1,244)
Net cash derived from operating activities	3,390	6,724

All interest payments are treated as operating cash movements as they arise from movements in working capital.

Reconciliation of debt

Group and Company:	Bank loans £'000	Revolving credit facilities £'000	Lease liabilities £'000	Preference shares £'000	Liabilities arising from financing activities £'000	Bank and cash balances £'000	Net debt £'000
At 1 April 2021	8,062	8,000	1,278	812	18,152	(5,735)	12,417
Cash movement	(875)	(2,000)	(539)	—	(3,414)	2,976	(438)
Non-cash movement	—	—	1,191	—	1,191	—	1,191
At 31 March 2022	7,187	6,000	1,930	812	15,929	(2,759)	13,170
Current liabilities	875	1,000	495	—	2,370	(2,759)	(389)
Non-current liabilities	6,312	5,000	1,435	812	13,559	—	13,559
At 31 March 2022	7,187	6,000	1,930	812	15,929	(2,759)	13,170

Non-cash movements in lease liabilities relate to the reassessment of the expected duration of one existing lease and one new lease that was entered into during the year.

19. Legal contingent liability

Since 2015, the Company has been named as co-defendant in a number of legal actions that have been initiated against certain of the vehicle manufacturers which it represents. These actions contend that customers have been unfairly treated as a result of their vehicles having been fitted with software which is suggested by the claimant law firms to have operated such that when the vehicles were experiencing test conditions, the emission levels of nitrogen oxides (“NOx”) were affected. The vehicles remain safe and roadworthy.

These claims on behalf of multiple claimants, arising out of or in relation to their purchase or acquisition on finance of a vehicle affected by the NOx issue, have been brought against a number of Jaguar Land Rover, Vauxhall, Volkswagen Audi, SEAT and Skoda group entities and dealers, including the Company. The Company has been named as a defendant on a number of 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, although not all of these causes of action are being brought against the Company specifically.

In all cases brought to date, the relevant vehicle manufacturers listed above have agreed to indemnify the Company 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 these legal actions. The possibility, therefore, of an economic cost to the Company resulting from the defence of these legal actions is remote.

At present, no timetable can be determined for the resolution of these cases and the relevant issues of liability, loss and causation have not yet been 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.

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