



Caffyns plc

Interim Report 2018





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Summary

	6 months to 30 September 2018 £'000	6 months to 30 September 2017 £'000
Revenue	105,019	106,504
Underlying EBITDA	2,367	1,817
Underlying profit before tax	1,185	743
Profit before tax	704	682
	Pence	Pence
Underlying basic earnings per share	34.3	20.8
Basic earnings per share	17.6	19.1
Interim dividend per ordinary share	7.50	7.50

Note: Underlying results exclude items that have non-trading attributes due to their size, nature or incidence. Underlying EBITDA of £2,367,000 (2017: £1,817,000) represents operating profit before non-underlying items of £1,730,000 (2017: £1,203,000) and depreciation and amortisation of £637,000 (2017: £614,000).

Financial and Operational Review

- Underlying profit before tax up 60% to £1.19 million (2017: £0.74 million)
- Profit before tax up 3% to £0.70 million (2017: £0.68 million)
- Like-for-like new car unit sales down by 10.4% against a 1.9% fall in UK retail and small business market segment registrations with deliveries heavily impacted by stock shortages caused by the new emissions-testing regulations, commonly referred to as WLTP
- Like-for-like used car unit sales up by 6.7%
- Aftersales revenues up by 9.3%
- Adjusted basic earnings per share up 65% to 34.3 pence (2017: 20.8 pence)
- Basic earnings per share down 8% to 17.6 pence (2017: 19.1 pence) due to property impairment charge
- Net bank borrowings higher at £12.2 million (2017: £10.3 million) reflecting investments in premises
- Interim dividend maintained at 7.50 pence (2017: 7.50 pence)

Simon Caffyns, Chief Executive, commented:



I am pleased to say that the half-year ended 30 September 2018 delivered an improved result with used cars and aftersales performing well.



Interim Management Report

Summary

I am pleased to say that the half-year ended 30 September 2018 ("the period") delivered an improved result. Although revenue fell by 1% to £105.0 million (2017: £106.5 million), our underlying profit before tax grew by 60% to £1.19 million (2017: £0.74 million) as used cars and aftersales performed extremely well. Adjusted basic earnings per share were 34.3 pence (2017: 20.8 pence), a 65% improvement.

On 1 September 2018, the government introduced a new emissions-testing regime, the Worldwide Harmonised Light Vehicle Test Procedure, commonly referred to as WLTP. This led to a scarcity in new car supply in the important bi-annual registration plate change month of September and was the main reason for the fall in turnover for the six-month period.

The Company's defined-benefit pension scheme deficit, as assessed by the independent actuary, showed a welcome reduction of £2.6 million from the last financial year-end at 31 March 2018 to £6.9 million at 30 September 2018.

The Company owns the vast majority of the freeholds for the properties from which it operates which provides the dual strengths of a strong asset base and minimal exposure to rent reviews. However, property values are dictated by wider market trends and, as a result, an impairment charge of £0.35 million has been recorded against the carrying value of a single property as a non-underlying charge against profits for the period.

Profit before tax for the period was £0.70 million (2017: £0.68 million) with basic earnings per share of 17.6 pence (2017: 19.1 pence).

The Company is maintaining its interim dividend at 7.5 pence per ordinary share.

Operating review

New and used cars

The disruption to new car supply in September caused by the introduction of the new emissions-testing regime, WLTP, from the beginning of that month was a major factor in our new car unit sales being down by 10.4% on a like-for-like basis in the period. Actions taken by our manufacturers earlier in the summer to position themselves for WLTP

were supportive and boosted used car sales ahead of expectations in those months. This enabled us to weather a weak performance in September and still maintain growth in vehicle sales profitability across the period. Our new car unit sales were also adversely impacted by the introduction by one of our manufacturers of an agency arrangement for fleet sales from 1 April 2018. Like-for-like used cars unit sales for the period were up 6.7% on the comparative period and we continue to invest in this area of the business. Over a five-year period, the Company has recorded a 50% growth in the number of used cars sold by its current businesses and we continue to see this area as providing opportunities for further growth.

Aftersales

Despite the reduction in new car registrations in the period, the number of one to three-year old cars in circulation continues to increase. Historically strong sales of both new and used cars has meant our three-year car parc has also grown considerably. It was encouraging to see like-for-like service revenues again grow, by 9% in the period, as we continued to realise improvements to our customer retention processes. Our parts business reported sales growth, also by 9%, on a like-for-like basis from the comparative period.

Operations

The financial performance of our Volkswagen division improved markedly in the period as many of the operational performance issues experienced in the comparative period were overcome. Given the strength of the brand, the excellent model range and the imminent arrival of several exciting new products, we are confident that further improvements in its future trading performance will be achievable.

Our Volvo business in Eastbourne traded very profitably in the period as it reaped the benefits of an excellent model range of cars which continue to be positively received by customers.

Our Audi businesses experienced a difficult six months with both the introduction of new agency terms for fleet sales from 1 April 2018 and the effects of WLTP on vehicle supply in September proving very challenging. The division remained

profitable for the period although at much reduced levels than in the comparative period.

In Tunbridge Wells, our SEAT business continued to perform well and, in conjunction with the adjacent Skoda business, grew its profitability from last year's levels. Our Skoda business in Ashford performed satisfactorily.

Our Vauxhall business in Ashford experienced an improved trading performance in the period as customers' confidence in the brand grew following its takeover in the UK last year by the PSA Group. Following recent announcements of an intended reduction in the number of dealers, the manufacturer has informed us of their intention for us to retain representation for the Ashford area in Kent.

Our Motorstore used car business in Ashford continued to expand with further increases in like-for-like sales volumes being achieved in the period. The concept has been very well received by our customers who particularly value the reassurance of the Caffyns brand. To facilitate this growth, the business made investments in both staffing levels and processes which have been a short-term drag on profitability but we remain confident in our ability to further grow both the volumes and profits of this concept.

During the period, the Company generated cash of £1.4 million, from operating profits and from improvements in working capital balances at the period end.

Property

Capital expenditure in the period was £2.5 million (2017: £1.0 million) which predominantly related to the completion of our new Audi development in Worthing. This opened at the end of July 2018 and will enable the business to expand and benefit from the development of new housing which has occurred in the area. The facility comprises two state-of-the-art new car configurator areas in addition to a ten-car showroom as well as extended used car display areas. The aftersales facility comprises a fourteen-bay workshop and innovative drive-through service reception area.

We are considering options to develop further our Volvo site in Eastbourne which would allow for an expansion of our showroom facility to better accommodate Volvo's widened model range. A nearby commercial property has already been

purchased which will facilitate this expansion by allowing our aftersales departments to be relocated into the newly acquired building.

We operate primarily from freehold sites and our property portfolio provides additional stability to our business model. Annually, we obtain an independent assessment of the values of our freehold properties against their carrying value in our accounts and had an unrecognised surplus to carrying value of £10.3 million at 31 March 2018, our last financial year-end. On occasion, changes in local conditions can result in adverse changes in valuations and, as a result, we have taken an impairment charge of £0.35 million against one property in our portfolio. This impairment charge has been reported in these results as a non-underlying charge against profits.

As part of the sale of the Land Rover business in a prior financial year, our freehold premises in Lewes have been leased to the purchaser for a fixed period to April 2020. The Board continues to evaluate future opportunities for the site.

Pensions

The Company's defined-benefit pension scheme started the period with an independently assessed deficit of £9.5 million. The Board has little control over the key assumptions in the valuation calculations as required by accounting standards but was pleased to note an improvement in the level of the discount rate in the period which resulted in a £1.9 million reduction in the assessed value of the liabilities of the Scheme. In late 2017, the Company worked with the trustees to appoint a fiduciary manager to the Scheme with the goal of both improving investment performance and reducing the risk profile of the assets. In the period, the deficit was also reduced by a gain of £0.6 million in the value of the Scheme's assets. Overall, the Scheme deficit finished the period at £6.9 million, an improvement of £2.6 million. Net of deferred tax, the deficit was £5.7 million at 30 September 2018 (2017: £5.0 million) and £7.9 million at 31 March 2018.

The pension cost under IAS 19 continues to be charged as a non-underlying cost and amounted to £127,000 in the period (2017: £117,000).

Interim Management Report

During the period, the Scheme's March 2017 actuarial valuation and associated recovery plan were agreed with the trustees and submitted to the Pensions Regulator prior to its stipulated deadline of 30 June 2018. Under the terms of this recovery plan, the Company agreed to make a cash payment of £0.48 million into the Scheme each year with these payments increasing in future financial years by a minimum of 2.25% per annum. In the period, cash payments of £0.25 million were paid into the Scheme.

Bank facilities

The Company has banking facilities with HSBC Bank which comprise a term loan, originally of £7.5 million, and a revolving-credit facility of £7.5 million, both of which will become renewable in March 2023. HSBC Bank also provides an overdraft facility of £3.5 million, renewable annually. In addition, there is 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 over the ten years to November 2023.

Bank borrowings, net of cash balances, at 30 September 2018 were £12.2 million (2017: £10.3 million), down from £14.0 million at 31 March 2018. As a proportion of shareholders' funds, bank borrowings, net of cash balances, were 42% (2017: 35%). The increase in gearing over the previous twelve months was primarily the result of the investment in the Audi development at Angmering.

Taxation

The tax charge for the period has been based on as estimation of the effective tax rate on profits for the full financial year of 28.7% (2017: 19.0%). The current year effective tax rate is higher than the standard rate of corporation tax in force for the year of 19% due to the effect of items disallowable for tax purposes such as the impairment charge against property and an adjustment for an under-provision of tax for a prior period.

People

I am very grateful for the dedication and professionalism shown by our employees. The marketplace in which we have operated in the period has been very challenging, particularly for new car sales following the introduction of WLTP, and their hard work and professional application has

been instrumental in achieving strong growth in both our used car sales and aftersales businesses.

Dividend

The Board remains confident in the future prospects of the Company and has therefore declared an unchanged interim dividend of 7.50 pence per ordinary share. This will be paid on 7 January 2019 to shareholders on the register at close of business on 7 December 2018. The ordinary shares will be marked ex-dividend on 6 December 2018.

Strategy

Our continuing strategy is to focus on representing premium and premium-volume franchises as well as maximising opportunities for premium 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 from fewer but bigger sites. We continue to deliver performance improvement, in particular in our used car and aftersales operations.

Current trading and outlook

Despite a weak marketplace for the biannual registration plate change in September, the current industry consensus for the 2018 calendar year is for no more than a single-digit fall in the UK new car market, so we are cautiously optimistic about the outlook. However, our full year outcome will remain dependent on the success of the next biannual registration plate change in March 2019 as well as on the wider challenges to the UK economy from uncertainty surrounding the finalisation of the Brexit process.

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

Simon G M Caffyn

Chief Executive
22 November 2018

Condensed Consolidated Statement of Financial Performance

for the half-year ended 30 September 2018

		Unaudited Half year to 30 September 2018 Total £'000	Unaudited Half year to 30 September 2017 Total £'000	Audited Year ended 31 March 2018 Total £'000
	Note			
Revenue		105,019	106,504	213,725
Cost of sales		(91,880)	(94,157)	(189,495)
Gross profit		13,139	12,347	24,230
Operating expenses		(12,318)	(11,396)	(22,552)
Operating profit before other income		821	951	1,678
Other income (net)	3	542	293	624
Operating profit		1,363	1,244	2,302
Operating profit before non-underlying items		1,730	1,203	2,325
Non-underlying items within operating profit	4	(367)	41	(23)
Operating profit		1,363	1,244	2,302
Finance expense	5	(545)	(460)	(935)
Non-underlying net finance expense on pension scheme	4	(114)	(102)	(202)
Net finance expense		(659)	(562)	(1,137)
Profit before taxation		704	682	1,165
Profit before tax and non-underlying items		1,185	743	1,390
Non-underlying items within operating profit	4	(367)	41	(23)
Non-underlying net finance expense on pension scheme	4	(114)	(102)	(202)
Profit before taxation		704	682	1,165
Taxation	6	(231)	(167)	(135)
Profit for the period		473	515	1,030
Earnings per share				
Basic	7	17.6p	19.1p	38.2p
Diluted	7	17.5p	19.0p	38.1p
Non-GAAP measure				
Underlying basic earnings per share	7	34.3p	20.8p	45.6p
Underlying diluted earnings per share	7	34.2p	20.7p	45.5p

Condensed Consolidated Statement of Comprehensive Income

for the half year ended 30 September 2018

		Unaudited Half year to 30 September 2018 £'000	Unaudited Half year to 30 September 2017 £'000	Audited Year ended 31 March 2018 £'000
	Note			
Profit for the period		473	515	1,030
Items that will never be reclassified to profit and loss:				
Remeasurement of net pension scheme obligation	9	2,488	2,436	(1,048)
Deferred tax on remeasurement of pension scheme obligation		(444)	(414)	178
Other comprehensive income/(expense), net of tax		2,044	2,022	(870)
Total comprehensive income for the period		2,517	2,537	160

Condensed Consolidated Statement of Financial Position

at 30 September 2018

	Unaudited 30 September 2018 £'000	Unaudited 30 September 2017 £'000	Audited 31 March 2018 £'000
Note			
Non-current assets			
Property, plant and equipment	40,063	36,090	40,064
Investment property	8,404	6,939	6,893
Goodwill	286	286	286
Total non-current assets	48,753	43,315	47,243
Current assets			
Inventories	29,543	28,981	30,398
Trade and other receivables	4,630	8,456	10,191
Current tax receivable	–	–	60
Cash and cash equivalents	2,250	305	3,375
Total current assets	36,423	37,742	44,024
Total assets	85,176	81,057	91,267
Current liabilities			
Interest-bearing overdrafts, loans and borrowings	1,375	500	3,875
Trade and other payables	32,530	32,522	35,782
Current tax payable	184	113	–
Total current liabilities	34,089	33,135	39,657
Net current assets	2,334	4,607	4,367
Non-current liabilities			
Interest-bearing loans and borrowings	13,062	10,125	13,500
Preference shares	812	812	812
Deferred tax liability	1,140	1,248	678
Pension scheme obligation	6,884	6,063	9,497
Total non-current liabilities	21,898	18,248	24,487
Total liabilities	55,987	51,383	64,144
Net assets	29,189	29,674	27,123
Shareholders' equity			
Ordinary share capital	1,439	1,439	1,439
Share premium	272	272	272
Capital redemption reserve	707	707	707
Non-distributable reserve	1,724	1,724	1,724
Retained earnings	25,047	25,532	22,981
Total equity	29,189	29,674	27,123

Consolidated Statement of Changes in Equity

for the half year ended 30 September 2018

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non- distributable reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2018, as previously stated	1,439	272	707	1,724	22,981	27,123
Change in accounting policy	–	–	–	–	(75)	(75)
At 1 April 2018, restated	1,439	272	707	1,724	22,906	27,048
Total comprehensive income						
Profit for the period	–	–	–	–	473	473
Other comprehensive income	–	–	–	–	2,044	2,044
Total comprehensive income for the period	–	–	–	–	2,517	2,517
Transactions with owners:						
Dividends	–	–	–	–	(404)	(404)
Share-based payment	–	–	–	–	28	28
At 30 September 2018 (unaudited)	1,439	272	707	1,724	25,047	29,189

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

for the half year ended 30 September 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non- distributable reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017	1,439	272	707	1,724	23,394	27,536
Total comprehensive income						
Profit for the period	–	–	–	–	515	515
Other comprehensive income	–	–	–	–	2,022	2,022
Total comprehensive income for the period	–	–	–	–	2,537	2,537
Dividends	–	–	–	–	(404)	(404)
Share-based payment	–	–	–	–	5	5
At 30 September 2017 (unaudited)	1,439	272	707	1,724	25,532	29,674

for the year ended 31 March 2018

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non- distributable reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017	1,439	272	707	1,724	23,394	27,536
Total comprehensive income						
Profit for the year	–	–	–	–	1,030	1,030
Other comprehensive expense	–	–	–	–	(870)	(870)
Total comprehensive income for the year	–	–	–	–	160	160
Transactions with owners:						
Dividends	–	–	–	–	(606)	(606)
Share-based payment	–	–	–	–	33	33
At 31 March 2018 (audited)	1,439	272	707	1,724	22,981	27,123

Condensed Consolidated Cash Flow Statement

for the half year ended 30 September 2018

	Unaudited Half year to 30 September 2018 £'000	Unaudited Half year to 30 September 2017 £'000	Audited Year ended 31 March 2018 £'000
Cash flows from operating activities			
Profit before taxation from continuing operations	704	682	1,165
Adjustments for:			
Net finance expense and pension scheme service cost	673	578	1,137
Depreciation and amortisation	637	614	1,185
Property impairment charge	350	–	–
Contribution to pension scheme obligation	(253)	(172)	(341)
Loss/(profit) on disposal of property, plant and equipment	3	4	(31)
Share-based payments	28	5	33
Decrease/(increase) in inventories	1,104	923	(494)
Decrease/(increase) in receivables	5,562	(618)	(2,353)
(Decrease)/increase in payables	(3,577)	(1,657)	1,637
Cash generated from operations	5,231	359	1,938
Tax recovered/(paid)	32	(222)	(341)
Interest paid	(546)	(460)	(935)
Net cash generated from/(used in) operating activities	4,717	(323)	662
Investing activities			
Proceeds from disposal of property, plant and equipment	3	–	43
Purchases of property, plant and equipment	(2,503)	(1,039)	(5,545)
Net cash used in investing activities	(2,500)	(1,039)	(5,502)
Financing activities			
Secured loans repaid	(438)	(250)	(8,000)
Secured loans received	–	–	11,500
Dividends paid to shareholders	(404)	(404)	(606)
Net cash (used in)/generated from financing activities	(842)	(654)	2,894
Net increase/(decrease) in cash and cash equivalents	1,375	(2,016)	(1,946)
Cash and cash equivalents at beginning of period	375	2,321	2,321
Cash and cash equivalents at end of period	1,750	305	375
Cash and cash equivalents	2,250	305	3,375
Bank overdraft	(500)	–	(3,000)
Net cash and cash equivalents	1,750	305	375

Notes to the Set of Financial Information

for the half year ended 30 September 2018

1. General Information

Caffyns plc is a company domiciled in the United Kingdom. The address of the registered office is Meads Road, Eastbourne, East Sussex, BN20 7DR.

These unaudited condensed consolidated interim financial statements for the half year to 30 September 2018 and similarly for the half year to 30 September 2017 are unaudited. They do not include all the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 March 2018.

The figures for the year ended 31 March 2018 have been extracted from the statutory accounts, filed with the Registrar of Companies, on which the auditor gave an unmodified opinion and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

These statements have been reviewed by the Company's auditor and a copy of their review report is set out at the end of these statements.

These consolidated interim financial statements were approved by the directors on 22 November 2018.

2. Accounting Policies

The annual financial statements of Caffyns plc are prepared in accordance with IFRSs as adopted by the European Union. The set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union. This interim financial report has been prepared under the historical cost convention as modified by the fair value accounting of defined benefit schemes and share-based payment transactions. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, this set of financial statements has been prepared in accordance with the accounting policies set out in the Annual Report for the year ended 31 March 2018 with the exception of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' which were adopted with effect from 1 April 2018.

IFRS 9 introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The impairment model requires recognition for any expected credit losses rather than being restricted to only those that have been incurred. A full impact assessment of IFRS 9 has been completed and the implementation had no material effect on the Company's accounts.

Notes to the Set of Financial Information

for the half year ended 30 September 2018

2. Accounting Policies (continued)

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. The Company has chosen to implement the new Standard through the recognition of the cumulative effect of the retrospective application of the new standard as the beginning of the period of initial application, with no restatement to comparative periods.

The core principle of IFRS 15 is that an entity should recognise its revenue at the point in which the transfer of promised goods or services to customers is passed in exchange for consideration that the entity expects to receive in exchange for those goods or services. Specifically, the standard introduces a five-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) a performance obligation is satisfied

A full impact assessment of IFRS 15 has been completed and revenue recognition under this standard remains consistent with the previous accounting policy with the exception of the income generated through commissions earned through the sale of finance agreements to purchase vehicles.

The Company recognises finance commission income upon the sale of finance policies sold to customers to facilitate their vehicle purchase. In this instance, the Company is acting as an agent for various finance houses and the income is recognised when the customer receives the product, with an adjustment made to recognised revenues to constrain any variable amounts of consideration receivable. The impact of adopting and implementing IFRS 15 did not have a material effect on the Company's revenue recognition.

Segmental reporting

Based upon the management information reported to the Group's chief operating decision maker, the Chief Executive, in the opinion of the directors, the Group only has one reportable segment.

There are no major customers amounting to 10% or more of the Group's revenue. All revenue and non-current assets derive from, or are based in, the United Kingdom.

2. Accounting Policies (continued)

Basis of preparation: Going concern

The condensed financial statements have been prepared on a going concern basis which the directors consider appropriate for the reasons set out below:

The Group meets its day-to-day working capital requirements through short-term stocking loans and bank overdraft and medium-term revolving-credit facilities. The overdraft and revolving-credit facilities include certain covenant tests. The failure of a covenant test would render these facilities repayable on demand at the option of the lenders.

The directors have undertaken a detailed review of trading and cash flow forecasts for a period in excess of one year from the date of this Half Year Report which projects that the facility limits are not exceeded over the duration of the forecasts. These forecasts have made assumptions in respect of future trading conditions, particularly volumes and margins of new and used car sales, aftersales and operational improvements together with the timing of capital expenditure. The forecasts take into account these factors to an extent which the directors consider to be reasonable, based on the information that is available to them at the time of approval of this financial information. These forecasts indicate that the Group will be able to operate within the financing facilities that are available to it and meet the covenant tests with sufficient margin for reasonable adverse movements in expected trading conditions.

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

Non-underlying items

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

The net financing return and service cost on pension obligations in respect of the defined benefit pension scheme is presented as a non-underlying item due to the inability of management to influence the underlying assumptions from which the charge is derived. The defined benefit pension scheme is closed to future accrual.

All other activities are treated as underlying.

Notes to the Set of Financial Information

for the half year ended 30 September 2018

3. Other Income (net)

	Half year to 30 September 2018 £'000	Half year to 30 September 2017 £'000	Year to 31 March 2018 £'000
Rent receivable	260	297	593
Compensation claim received	285	–	–
(Loss)/profit on disposal of tangible fixed assets	(3)	(4)	31
Total finance costs	542	293	624

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

4. Non-Underlying Items

	Half year to 30 September 2018 £'000	Half year to 30 September 2017 £'000	Year to 31 March 2018 £'000
Other income:			
Net profit/(loss) on disposal of property, plant and equipment	(3)	(4)	31
Within operating expenses:			
Service cost on pension scheme	(14)	(15)	(34)
Property impairment charge	(350)	–	–
Property lease dilapidation provision release	–	60	60
VAT compliance costs	–	–	(80)
	(364)	45	(54)
Non-underlying items within operating profit	(367)	41	(23)
Net finance expense on pension scheme	(114)	(102)	(202)
Total non-underlying items within profit before taxation	(481)	(61)	(225)

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

During the period, the Company impaired the carrying value of one of its freehold properties by £350,000 to reflect changes in property values in one market location.

The Company exercised a break clause of its lease for a site in Tonbridge in June 2017. The Company negotiated a total cost for the remedial work on this property of £80,000 with a further £9,000 incurred in associated professional fees in the period. The remaining provision held of £60,000 was credited back to operating expenses in the prior financial year as a non-underlying item.

4. Non-Underlying Items (continued)

In September 2017, the Company received a periodic VAT inspection from HM Revenue & Customs which identified certain items of non-compliance with relevant legislation. In the prior financial period, a sum of £20,000 was settled and a further provision of £60,000 was made as a non-underlying item to allow for items still to be resolved.

5. Finance Expense

	Half year to 30 September 2018 £'000	Half year to 30 September 2017 £'000	Year to 31 March 2018 £'000
Interest payable on bank borrowings	158	95	186
Vehicle stocking plan interest	304	291	591
Financing costs amortised	47	38	86
Preference dividends	36	36	72
Total finance costs	545	460	935

6. Taxation

	Half year to 30 September 2018 £'000	Half year to 30 September 2017 £'000	Year to 31 March 2018 £'000
Current UK corporation tax			
Charge for the period	(203)	(138)	(227)
Adjustments recognised in the period for current tax of prior periods	(10)	–	143
Total current tax charge	(213)	(138)	(84)
Deferred tax			
Origination and reversal of timing differences	(34)	(29)	1
Adjustments recognised in the period for deferred tax of prior periods	16	–	(52)
Total deferred tax charge	(18)	(29)	(51)
Total tax charged in the Statement of Financial Performance	(231)	(167)	(135)

Notes to the Set of Financial Information

for the half year ended 30 September 2018

6. Taxation (continued)

The tax charge arises as follows:

	Half year to 30 September 2018 £'000	Half year to 30 September 2017 £'000	Year to 31 March 2018 £'000
On normal trading	(259)	(182)	(161)
Non-underlying items	28	15	26
Total tax charge	(231)	(167)	(135)

Taxation of trading items for the half year has been provided at the current rate of taxation of 29% (2017: 19%) expected to apply to the full year. This effective rate is higher than the standard rate of corporation tax in force of 19% due to the effect of non-deductible expenses, including the impairment charge against freehold property and non-qualifying depreciation.

7. Earnings Per 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 period. Treasury shares are treated as cancelled for the purposes of this calculation.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post-tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and the weighted average number of shares used in the calculations are set out below.

	Half year to 30 September 2018 £'000	Half year to 30 September 2017 £'000	Year to 31 March 2018 £'000
Basic			
Profit for the period	473	515	1,030
Basic earnings per share	17.6p	19.1p	38.2p
Diluted earnings per share	17.5p	19.0p	38.1p
Adjusted			
Profit before tax	704	682	1,165
Adjustment: Non-underlying items (note 3)	481	61	225
Underlying profit for the period	1,185	743	1,390
Taxation on normal trading (note 6)	(259)	(182)	(161)
Underlying earnings	926	561	1,229
Underlying basic earnings per share	34.3p	20.8p	45.6p
Diluted earnings per share	34.2p	20.7p	45.5p

7. Earnings Per Share (continued)

The number of fully paid ordinary shares in issue at the period end was 2,879,298 (2017: 2,879,298). Excluding the shares held for treasury, the weighted average shares in issue for the purposes of the earnings per share calculation were 2,694,790 (2017: 2,694,790). The shares granted under the Company's SAYE scheme are dilutive. The number of dilutive shares under option at fair value was 7,279 (2017: 12,374) giving a total diluted weighted average number of shares of 2,702,069 (2017: 2,707,164).

The Directors consider that underlying earnings per share figures provide a better measure of comparative performance.

8. Dividends

Ordinary shares of 50p each

The interim dividend proposed at the rate of 7.50 pence per share (2017: 7.50 pence) is payable on 7 January 2019 to shareholders on the register at the close of business on 7 December 2018. The shares will be marked ex-dividend on 6 December 2018.

Preference shares

Preference dividends were paid in October 2018. The next preference dividends are payable in April 2019. The cost of the preference dividends has been included within finance costs.

9. Pensions

The pension scheme deficit reflects a defined benefit obligation that has been updated to reflect its valuation as at 30 September 2018. This has been calculated by a qualified actuary using a consistent valuation method to that which was adopted in the audited financial statements for the year ended 31 March 2018 and in the period to 30 September 2017, and which complies with the accounting requirements of IAS 19 (revised).

The net liability for defined benefit obligations has decreased from £9,497,000 at 31 March 2018 to £6,884,000 at 30 September 2018. The decrease of £2,613,000 comprises the net charge to the Statement of Financial Performance of £128,000 and a net remeasurement gain credited to the Statement of Comprehensive Income of £2,488,000 and contributions of £253,000. Asset values were largely unchanged in the six-month period although pension benefits paid in the period were £1,966,000. Pension liabilities decreased as a result of an increase in the discount rate from 2.40% at 31 March 2018 to 2.65% at 30 September 2018 and from pensions paid in the period.

Notes to the Set of Financial Information

for the half year ended 30 September 2018

9. Pensions (continued)

After the balance sheet date, on 26 October 2018, the High Court of Justice in London handed down a judgement confirming that pension benefits associated with guaranteed minimum pensions ("GMP"s) were required to be equalised between men and women. However, the judgement did not define a set methodology for how this equalisation should occur across all pension schemes. The trustees of the Caffyns Pension Scheme will now consider this judgement and, with the Company, decide how best to carry out this equalisation process. The financial impact of equalising GMPs remains highly uncertain although broad industry-wide estimates have suggested a possible increase in scheme liabilities of between 0% and 3%. Given this uncertainty, and the short period of time available since the legal judgement was released, no amendments as a result of any additional liability arising from this judgement has been included in these condensed financial statements.

10. Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Board believes these risks and uncertainties to be consistent with those disclosed in our latest Annual Report, including general economic factors, their impact on the Group's defined benefit pension scheme, liquidity and financing, the Group's dependency on its manufacturers and their stability, used car prices and regulatory compliance. Following the UK's decision to leave the EU, a degree of uncertainty in the UK economy has been created and we believe that the main risks to arise from this relate to consumer confidence and the potential impact that Sterling/Euro exchange rates may have on vehicle prices.

11. Contingent Liabilities

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.

We understand that, to date, in the region of 860,000 affected UK vehicles have now had the technical measures applied.

11. Contingent Liabilities (continued)

Notwithstanding the above, claims on behalf of multiple claimants, arising out of or in relation to their purchase, ownership or acquisition on finance of a Volkswagen Group vehicle affected by the NOx issue, have been brought or intimated against a number of Volkswagen entities and dealers, including Caffyns. To date, claimant law firms have listed Caffyns on a number of claim forms claiming breach of contract and a breach of the Consumer Protection from Unfair Trading Regulations 2008.

A Group Litigation Order ("GLO") has been ordered by the High Court of England and Wales setting out the parameters for the group action litigation. The next hearing is likely to occur in the first quarter of 2019. No deadlines have yet been set for disclosure, service of witnesses or expert evidence.

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

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

12. Responsibility Statement

We confirm to the best of our knowledge:

- a) the Half Year Report has been prepared in accordance with IAS34 'Interim Financial Reporting';
- b) the Half Year Report includes a fair review of the information required by DTR 4.2.7R of the Disclosure and Transparency Rules (indication of important events during the first six months and their impact on the set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year); and
- c) the Half Year Report includes a fair review of the information required by DTR 4.2.8R of the Disclosure and Transparency Rules (disclosure of related parties' transactions and changes therein).

By order of the Board

S G M Caffyn

Chief Executive

22 November 2018

M Warren

Finance Director

Independent Review Report to Caffyns plc

Introduction

We have reviewed the condensed set of financial statements in the half-yearly financial report of Caffyns plc for the six months ended 30 September 2018 which comprises the Condensed Consolidated Statement of Financial Performance, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and the related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company, as a body, in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, as a body, for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance

with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express a conclusion to the Company on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants
Crawley

22 November 2018

Our Dealerships



AUDI

BRIGHTON: 200 Dyke Road, Brighton BN1 5AT (01273 610578)

EASTBOURNE: Edward Road, Eastbourne BN23 8AS (01323 344062)

WORTHING: Roundstone By-Pass Road, Angmering, Littlehampton BN16 4BD (01903 373081)



SEAT

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



ŠKODA

SKODA

ASHFORD: The Boulevard, Ashford TN24 0GA (01233 273045)

TUNBRIDGE WELLS: North Farm Industrial Estate, Tunbridge Wells TN2 3EL (01892 256415)



VAUXHALL

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



Volkswagen

VOLKSWAGEN

BRIGHTON: Victoria Road, Portslade BN41 1YD (01273 610585)

EASTBOURNE: Lottbridge Drove, Eastbourne BN23 6PW (01323 401075)

HAYWARDS HEATH: Market Place, Haywards Heath RH16 1DN (01444 650251)

WORTHING: Nightingale Avenue, Worthing BN12 6FH (01903 250550)



VOLVO

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

CAFFYNS MOTORSTORE

MOTORSTORE

ASHFORD: Monument Way, Orbital Park, Ashford TN24 0HB (01233 273475)



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