Caffyns plc

Annual Report 2020

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Results at a Glance

Summary

	2020 £'000	2019 £'000
Revenue	**197,854**	209,246
Underlying EBITDA (see note A)	**3,428**	3,982
Underlying profit before tax (see note A)	**251**	1,445
Profit/(loss) before tax	**103**	(428)

	pence	pence
Underlying (deficit)/earnings per share	**(4.9)**	35.3
Deficit per share	**(9.4)**	(21.0)
Proposed final dividend per ordinary share	**–**	15.00
Dividend per ordinary share for the year	**7.50**	22.50

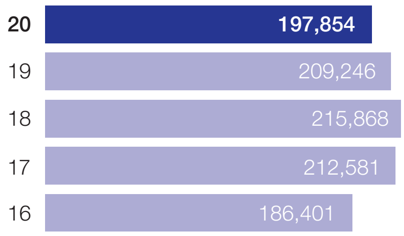
Note A: Underlying results exclude items that have non-trading attributes due to their size, nature or incidence. Non-underlying items for the period totalled a credit of £39,000 (2019: charge of £1,651,000) and are detailed in Note 2 to these consolidated financial statements. Underlying EBITDA of £3,428,000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

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

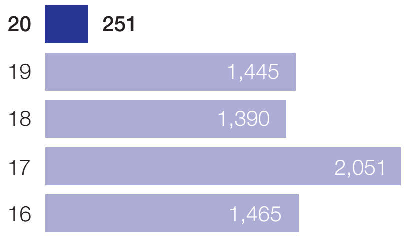
Overview

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

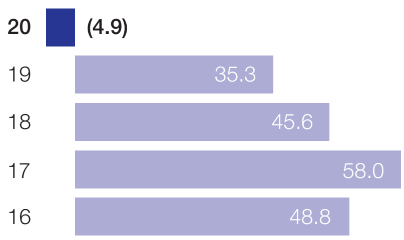
Revenue (£'000)



Underlying PBT (£'000)



Underlying earnings per ordinary share (p)



Operational and Business Review

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

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

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

Coronavirus (“covid-19”)

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

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

In response to the impact of covid-19, the Company implemented numerous cash preservation and cost saving measures across many areas of the business. These included making extensive use of the Government’s Job Retention Scheme, with approximately 80% of the Company’s employees

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

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

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

New and used car sales

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

Unit sales volumes of used cars fell by 1.4% on a like-for-like basis, although unit margins remained strong. Over the last five-year period, the Company has recorded a 33% like-for-like growth in the number of used cars sold, and we continue to see this element of our business providing a major opportunity for further growth. The number of used cars sold again exceeded the number of new cars sold in the year.

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

Operational and Business Review continued

Aftersales

Despite the loss of over a week's activity in late March from the covid-19 temporary closures, we were encouraged that our service revenues in the year continued to rise, by 2.4% on a like-for-like basis. We continue to place great emphasis on our customer retention programmes and in growing sales of service plans. Our parts business reported slightly lower sales, down by 1.3% on a like-for-like basis over the previous year.

Operations

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

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

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

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

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

Groupwide projects

We remain focused on generating further improvements in used car sales, used car finance and service labour sales. These three areas will be key to achieving increases in profitability in the coming years. In addition, we continue to make very good progress utilising technology to enhance the customer-buying experiences from their first point of contact right through to the showroom buying process, as well as improving aftersales retention.

Property

We operate primarily from freehold sites and our property portfolio provides additional stability to our business model. As in previous years, our freehold premises were revalued at the balance sheet date by chartered surveyors CBRE Limited, based on an existing use valuation. The excess of the valuation over net book value of our freehold properties at 31 March 2020 was £11.8 million (2019: £11.2 million). We would, however, note that CBRE drew attention in their valuation report to the uncertainty that the present covid-19 pandemic could have on property values. In accordance with our accounting policies (which reflect those generally utilised throughout the motor retail industry), this surplus has not been incorporated into our accounts.

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

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

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

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

Bank facilities

The Company's banking facilities with HSBC comprise a term loan, originally of £7.5 million, repayable by instalments over a twenty-year period to 2038 and a revolving-credit facility of £7.5 million, both of which will next become renewable in March 2023. HSBC also provides an overdraft facility of £3.5 million, renewable annually. The Company continues to enjoy a supportive relationship with HSBC and, subsequent to the year-end, the overdraft facility limit was increased to £6.0 million. In addition, the Company has an overdraft facility of £7.0 million provided by Volkswagen Bank, renewable annually, together with a term loan, originally of £5.0 million, which is repayable by instalments over the ten years to November 2023.

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

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

Taxation

The year ended 31 March 2020 resulted in a tax charge of £0.4 million (2019: £0.1 million). The effective tax rate was significantly higher than the standard rate of corporation tax in force for the year of 19%, mainly due to the impact on deferred tax from the change of tax rate in the year, as well as to adjustments to prior year estimates of the tax liability on unrealised gains charged in the current year that would arise from the future sale of properties and goodwill.

The Company has current outstanding trading losses awaiting relief of £0.1 million (2019: £Nil). There are no capital losses awaiting relief. Capital gains that remain unrealised, where potentially taxable gains arising from the sale of properties and goodwill have been rolled over into replacement assets, amount to £8.9 million (2019: £7.9 million), which could equate to a future potential tax liability of £1.7 million (2019: £1.3 million). The Company also has an amount of £1.1 million (2019: £1.1 million) of recoverable Advanced Corporation Tax ("ACT") and £0.8 million (2019: £0.7 million) of shadow ACT. The board remains confident in the recoverability of the ACT although the shadow ACT must first be fully absorbed before the ACT balance itself can become available to be utilised.

Pension scheme

The Company's defined benefit scheme was closed to future accrual in 2010. In common with many companies, the board has little control over the key assumptions in the valuation calculations as required by accounting standards and the unprecedented low yields of gilts and bonds continues to have a significant impact on the net funding position of the scheme. At 31 March 2020, the deficit had widened to £9.4 million (2019: £8.6 million). The deficit, net of deferred tax, was £7.6 million (2019: £7.1 million).

The Scheme operates with a fiduciary manager and the board, together with the independent pension fund trustees, continues to review options to reduce the cost of operation and its deficit. Actions that could further reduce the risk profile of the assets and more closely match the nature of the Scheme's assets to its liabilities continue to be sought.

The pension cost under IAS 19 continues to be charged as a non-underlying cost and amounted to £0.2 million in the year (2019: £0.2 million). In the prior year, the Income Statement was charged with a non-underlying cost of £0.9 million, which was our best estimate of the financial impact of equalising Guaranteed Minimum Pensions between our male and female scheme members. This followed the legal guidance provided by the High Court in November 2018. The full process of equalisation will need to occur over a considerable period of time, but the estimated cost was arrived at following advice from the Scheme's actuary.

A formal triennial valuation of the Scheme is currently underway, effective for 31 March 2020. The last completed review was carried out as at 31 March 2017 and was submitted to

Operational and Business Review continued

the Pensions Regulator prior to the 30 June 2018 deadline. A recovery plan to deal with the Scheme deficit identified from this triennial valuation was agreed with the trustees and, as a result, the Company made deficit-reduction contributions into the Scheme in the year of £0.5 million (2019: £0.5 million). The annual recovery plan payment for the coming and each subsequent year will increase by the greater of 2.25% or the growth in shareholder dividend payments until superseded by a new recovery plan to be agreed between the Company and the trustees. The 31 March 2020 triennial valuation is expected to be completed and submitted to the Pensions Regulator by June 2021.

People

I am very grateful for the dedication of our employees and the effort they apply to provide our customers with a first-class experience. Across the Company, the hard work and professional application of our employees has remained outstanding.

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

The Company has a long tradition of investing in apprenticeship programmes and this continued alongside the new Government apprenticeship levy that was implemented in April 2017. We have kept our apprenticeship numbers at a high level and continue to see the benefits flow through the business as more apprentices complete their training and become fully qualified. Due to our apprentice numbers, we continue to fully utilise our levy payments within the stipulated time limits.

We remain firmly committed to the long-term benefits of apprenticeships and our recruitment programme continues with the aim of maintaining a healthy complement in the coming year to assist the Company to grow.

Dividend

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

An interim dividend of 7.5 pence per Ordinary share (2019: 7.5 pence) was paid during the year. The total dividend for the year was therefore 7.5 pence per ordinary share (2019: 22.5 pence).

Strategy

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

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

Outlook

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

S G M Caffyn
Chief Executive
17 July 2020

Strategic Report

Business model

Caffyns is one of the leading motor retail and aftersales companies in the south-east of England. The Company's principal activities are the sale and maintenance of motor vehicles, including the sale of tyres, oil, parts and accessories. The Operational and Business Review, which forms part of the Strategic Report, principally covers the development and performance of the business and the external environment, and is set out on pages 2 to 6. The main Key Performance Indicators are:

Financial	2020	2019
Revenue (£ million)	197.85	209.25
Underlying EBITDA (£ million)	3.43	3.98
Profit/(loss) for the year before tax (£ million)	0.10	(0.43)
Underlying (deficit)/earnings per share (pence)	(4.9)	35.3
Deficit per share (pence)	(9.4)	(21.0)
Bank overdrafts and loans (net of cash in hand balances) (£ million)	16.24	13.59
Gearing (%)	62	49

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

Other and non-financial	2020	2019
UK new car market – total registrations (million)	2.09	2.35
UK new car market – retail and small business sector registrations (million)	0.97	1.13
Caffyns new car sales ('000)	3.92	4.41
Caffyns used car sales ('000)	5.31	5.39
Caffyns aftersales revenues (excluding internal sales) (£ million)	18.32	18.32
Company employees (full time equivalents)	419	421

Source of UK market registrations: Society of Motor Manufacturers and Traders ("SMMT").

Business performance

New and used cars

Our new unit deliveries were down by 11.0% on a like-for-like basis. Over the twelve-month period, total UK new car registrations fell by 11.7% and, within this, the private and small business sector, in which we primarily operate, fell by 14.3%. Deliveries in the year for both the market and ourselves were adversely impacted by the early stages of the covid-19 pandemic lockdown measures in March 2020 and by the implementation of the second stage of the harmonised emissions testing regime, Real-Driving Emissions, in September 2019.

Our used unit sales decreased by 1.4%, also being adversely impacted by the Government's restrictions on businesses to counter the covid-19 pandemic in March 2020.

Aftersales

Further significant reductions in new car registrations in the period, predominantly caused by the covid-19 pandemic, in addition to reductions in prior periods, acted to reduce the number of one to three-year-old cars in circulation. Mitigating this, improvements to customer retention rates for many of our marques resulted in unchanged levels of like-for-like aftersales revenue against the previous year. The actions we have taken to enhance our aftersales marketing and retention procedures, together with our new and used car sales, continue to benefit this area of the business.

Business strategy

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

Principal risks and uncertainties

Risk is an accepted part of doing business and the Company has a risk assessment process that facilitates the identification and mitigation of risk. While the risk factors listed below could cause our actual future results to differ materially from expected results, other factors could also adversely affect the Company and they should therefore not be considered to be a complete set of all potential risks and uncertainties. The risk factors should be considered alongside the statement on internal control and risk management included in the Statement on Corporate Governance on page 20 and those in notes 20 and 21 to the financial statements.

Strategic Report continued

Principal risks	Potential impact/material risk	Key controls and mitigating factors
Business conditions and the UK economy	The profitability of the Company could be adversely affected by a worsening of general economic conditions in the United Kingdom, where all of its business is transacted, including as a result of the UK's departure from the European Union. Other relevant factors would include the ongoing covid-19 pandemic, interest rates, unemployment, fuel prices, inflation, indirect taxation, the availability and cost of credit and other factors, which affect levels of consumer confidence.	Monitoring of key macroeconomic indicators against internal performance leads to anticipation of, and mitigation for, expected volatilities.
Vehicle manufacturer marketing programmes	Vehicle manufacturers provide a wide variety of marketing programmes, which are used to promote new vehicle sales. A withdrawal or reduction in these programmes would have an adverse impact on our business.	By representing multiple marques, the Company believes that this diversity reduces the potential impact on the Company. In addition, the Company continues to develop its own marketing initiatives.
Used car prices	Used car prices can decline significantly. A large proportion of our business comprises used car sales and such declines could have a material impact through reduced profits on sales and write-downs in the value of inventories.	Close monitoring of the ageing of vehicle inventories and a firm policy of inventory management help to mitigate this risk. Any impact is also mitigated by revenue streams being balanced between aftersales, new and used car sales.
Vehicle manufacturer dependencies	Caffyns operates franchised motor dealerships. These franchises are awarded to the Company by the vehicle manufacturers. For ongoing business, the Company holds franchise agreements for its dealership operations. These agreements can be terminated by giving two years' notice, or less in the event of a serious unremedied breach including continued under-performance. The Company is not aware of any breach of these agreements.	Diversifying through representing multiple marques reduces the potential dependency on any single manufacturer. Revenue streams from other activities (aftersales and used cars) prevent over-reliance on new car sales.
Liquidity and financing	Liquidity and financing risks relate to our ability to pay for goods and services enabling us to trade. Our principal sources of finance are from our bankers by way of committed borrowing facilities, from manufacturers to fund the purchases of inventories, and trade credit from our suppliers. A withdrawal of facilities, or failure to renew them when due, could lead to a significant reduction in the trading capability of the Company.	We work closely with providers of finance to help reduce this risk by managing expectations of trading results and utilisation of facilities. The status of our bank facilities is set out in note 21. These negotiated facilities provide sufficient liquidity and funding. We do not presently hedge against interest rate movements, but the position is kept under regular review.
Regulatory compliance	The Company is subject to regulatory compliance risk which could arise from a failure to comply fully with the laws, regulations or codes applicable. Non-compliance could lead to fines, cessation of certain business activities or public reprimand.	The direction of new regulatory policy is monitored through close contact with relevant trade and representative bodies and these are carefully considered when developing strategy.
Information systems	The Company is dependent upon certain business-critical systems which, if interrupted for any considerable length of time, could have a material effect on the efficient running of our businesses.	The board has implemented a series of contingency plans that would enable the resumption of operations within a short space of time, thus mitigating the likelihood of material loss.

Principal risks	Potential impact/material risk	Key controls and mitigating factors
Competition	Caffyns competes with other franchised vehicle dealerships, private buyers and sellers, internet-based dealers, independent service and repair shops and manufacturers who have entered the retail market. The sale of new and used cars, the performance of warranty repairs, routine maintenance business and the supply of spare parts operate in highly competitive markets. The principal competitive factors are price, reputation, customer service and knowledge of a manufacturer's brands and models. We also compete with funders who finance customers' car purchases directly.	To mitigate this risk, we regularly monitor our competitors' activities and seek to price our products competitively, optimise customer service, efficiently utilise our customer database and fully understand our manufacturers' brands and products.
Changes in legislation in relation to the distribution and sale of vehicles	Sales agreements are granted by manufacturers based on standards, but agreements are restricted to areas of influence granted by manufacturers, who also determine choice of partner, enabling them to restrict entry into the franchise or the number of outlets any one dealer can hold. Aftersales agreements are legislated by a Block Exemption, dictating that aftersales businesses that meet a manufacturer's qualitative standards criteria have an entitlement to represent that brand's aftersales service and parts franchise.	By continuing to focus on providing excellent customer facilities, excellent customer service and by providing high-level representation for the Company's manufacturer partners, current business relationships will be maintained, providing opportunities for selective growth.
Pension scheme	Caffyns operates a defined-benefit pension scheme, which was closed to new entrants in 2006 and closed to future accrual in 2010. The scheme relies on achieving satisfactory investment returns sufficient to meet the present value of the accrued liabilities. Reduced investment returns or higher liabilities due to increased mortality rates and/or continuing record low interest rates could adversely affect the surplus or deficit of the scheme and may result in increased cash contributions in future.	The Company reviews the position of the defined-benefit pension scheme through regular meetings of a Pensions sub-Committee, chaired by the Chairman of the Audit and Risk Committee. Through this sub-Committee, the Company has an ongoing review of possible options to mitigate the risk of underlying volatility causing an increase in the deficit.
Political uncertainties	The United Kingdom's entry into the transitional arrangements following its departure from the European Union, coupled with wider global political developments, means that a degree of uncertainty in the United Kingdom economic outlook continues to exist. We believe the main risks to arise from this state of affairs relate to consumer confidence, the potential impact that sterling/euro exchange rates may have on vehicle pricing, the possible imposition of tariffs and/or restrictions on the imports of cars and parts into the United Kingdom.	We continue to focus on delivering an excellent service to new and existing customers, giving confidence in our operations and building a strong loyalty base, and to maintaining our close working relationship with our six manufacturers.

Strategic Report continued

Corporate social responsibility, human rights and diversity

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

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

The table below gives the total number of our employees in each category, by gender, as at 31 March 2020.

	Female	Male	Total
Director	1	5	6
Senior management	–	11	11
All other employees	118	348	466

Employees

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

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

Good performance from employees is recognised every four months by their peer group who nominate employees for awards and formal company-wide recognition. A significant number of employees are remunerated partly by profit-related bonus schemes.

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

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

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

We have continued to recruit to our apprenticeship programme, and we are seeing the benefits of this investment. We look to further recruit both apprentices and others across the Company's businesses as we continue to grow.

Environment

The Company is aware of its environmental responsibilities arising from its motor retailing and aftersales activities and recognises that some of its activities affect the environment. Our Health, Safety and Environment Officer has received formal training in environmental management and is appropriately experienced in this field. Our policy is to promote and operate processes and procedures which, so far as is reasonably practicable, avoid or minimise the contamination of water, air or the ground.

Licences are obtained from the relevant authorities, where required, to operate certain elements of the Company's business. Waste is disposed of by authorised contractors and is recycled where possible. Special care is taken in the storage of fuels and oils. Through the management of these activities, we seek to minimise any adverse effects of its activities on the environment.

We also seek to reduce our energy and water consumption and audit processes are in place to measure usage and make recommendations for improvements. An electrical test monitoring regime is in place throughout the Company's businesses. Use of the latest building materials is made in the construction of new sites and the refurbishment of existing locations.

Mandatory carbon reporting

This section includes our mandatory reporting of greenhouse gas emissions for the period 1 January 2019 to 31 December 2019, the latest annual period for which data is available, and is pursuant to the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. We report our emissions data using an operational control approach taking data for which we deem ourselves responsible, including both energy consumption and vehicle usage for business use. In the 2019 calendar year, our businesses emitted 1,354 tonnes of carbon dioxide ("CO_2") (2018: 1,385 tonnes). Our emissions are principally of CO_2 and are from the following sources:

Greenhouse gas emissions data	**Tonnes of CO_2 2019**	Tonnes of CO_2 2018	Tonnes of CO_2 2017
Scope 1			
Gas consumption	**308.8**	308.6	286.7
Owned transport	**74.2**	87.4	90.5
Water supply	**4.8**	5.2	4.8
Scope 2			
Purchased electricity	**972.6**	995.9	982.4
Generated electricity	**(6.3)**	(12.2)	(1.0)
Statutory total	**1,354.1**	1,384.9	1,363.4
Revenue (£million)	**205.4**	186.3	213.1

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

2017 intensity ratio: 6.4 tonnes of CO_2 per £million of revenue

2018 intensity ratio: 6.5 tonnes of CO_2 per £million of revenue

2019 intensity ratio: 6.6 tonnes of CO_2 per £million of revenue

The Company's total energy consumption for the period 1 January 2019 to 31 December 2019 was 3.981 million kWh. The methodology for calculating this annual energy consumption figure was the same as that outlined above for producing the estimate of the Company greenhouse gas emissions.

All of the Company's energy consumption arose in the UK.

Our greenhouse gas emissions associated with waste arise from a number of waste streams generated from our business. For conversion to carbon dioxide equivalent, CO_2e, data is not readily available for a number of our waste streams, so we have chosen to report this in weight and percentage of waste recycled compared to waste sent to landfill, as opposed to CO_2. Waste in 2019 was 705.4 tonnes (2018: 491.6 tonnes) of which 96% was recycled (2018: 93%).

Reducing carbon and waste

During the year, we have continued to assess and monitor our energy use with improved data collection and, where practicable, we have implemented measures to reduce the environmental impact of our activities.

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

Strategic Report continued

Health and safety

The board recognises its responsibility to members of staff and others working or visiting our facilities to provide, so far as is reasonably practicable, an environment that is safe and without risk to their health and this is always the first agenda item at each board meeting. The board maintains ultimate responsibility for health and safety issues with a full time Heath, Safety and Environment Officer responsible on a day-to-day basis, supported by all levels of management. The Company's policy is to identify potential hazards and assess the risks presented by its activities and to provide systems and procedures that allow our staff to take responsible decisions in their work in relation to their own, and others', safety. We promote awareness of potential risks and hazards and implementation of corresponding preventative or remedial actions through online health and safety systems, operations manuals and monthly communication on topical issues. With clear lines of operating unit responsibility, staff are supported by specialist guidance from the Heath, Safety and Environment Officer. All our staff have access to a detailed health and safety guide.

Section 172 statement

Section 172 of the Companies Act 2006 requires directors to take into consideration the interests of stakeholders and other matters in their decision making. The directors continue to have regard to the interests of the Company's employees and other stakeholders, the impact of its activities on the community, the environment and the Company's reputation for good business conduct, when making decisions. In this context, acting in good faith and fairly, the directors consider what is most likely to promote the success of the Company for its members in the long term. We explain in this Annual Report, and below, how the board engages with stakeholders.

- Relations with key stakeholders such as shareholders and suppliers are considered in more detail on page 20;
- The Company's employees are recognised as vital to its success and employee relations are considered in more detail on pages 6, 10 and 35. The board intends to further enhance its methods of engagement with its employees in the coming financial year with the Chief Executive visiting the Company's sites regularly for question and answer sessions with staff. He will report to the board on the outcome of these sessions. In addition, the board takes account of employees' interests when making decisions;
- The directors are fully aware of their responsibilities to promote the success of the Company in accordance with section 172 of the Companies Act 2006. To ensure the Company was operating in line with good corporate practice, all directors received refresher training on the scope and application of section 172 in writing. This encouraged the board to reflect on how the Company engages with its stakeholders and opportunities for enhancement in the future and was considered at the Company's Audit and Risk Committee meeting in November 2019. As required, the Company Secretary provides support to the board to help ensure that sufficient consideration is given to issues relating to the matters set out in s172(1)(a)-(f);
- The board regularly reviews the Company's principal stakeholders and how it engages with them. This is achieved through information provided by management and also by direct engagement with stakeholders themselves;
- We aim to work responsibly with our stakeholders, including suppliers. The board has recently reviewed its anti-corruption and anti-bribery, equal opportunities, and whistleblowing policies.

During the year under review, ended 31 March 2020, the key decisions taken by the board included:

- **Covid-19 pandemic:** On 23 March 2020, the Government announced restrictions on businesses as a result of the growing impact from the worldwide covid-19 pandemic. Car showrooms were classified as non-essential and were required to close and the board reacted swiftly with all showrooms closing in line with this instruction. Car workshops were classified by the Government as essential businesses and were permitted to remain open, but the board was concerned that a safe environment for our staff and customers could not be immediately provided and therefore took the decision that these should also close. Emergency response teams in three of our twelve workshops, comprising a skeleton staff of volunteers, remained in post to provide assistance to NHS and other key workers. Over the following weeks, social distancing procedures, along with physical changes such as perspex screens, personal protective equipment and additional hygiene measures were put in place and, subsequent to the year-end, the board was able to reopen its workshops in a controlled and careful way from mid-May onwards. In late May, the UK Government announced a relaxation of controls over certain businesses and, from the beginning of June, car showrooms were allowed to reopen. In addition to the measures adopted for our aftersales business, the board adopted further measures for car sales, such as appointment-only access to showrooms and unaccompanied test drives and continues to proactively review these measures on a continuing basis;
- **Appointment of non-executive director:** Mr N W Hollingworth had been a non-executive director of the Company since March 2008 and, having served in excess of nine years, had not been considered independent since 2017. In April 2016 the Company had undertaken a significant disposal, selling its Land Rover business, and had decided that changes to board personnel at that time would have had a detrimental impact on the business. However, by 2019, these concerns had waned and, as a result, the board decided in the year to commence a search process for a new non-executive director. Accordingly, an external recruitment agency was appointed in February 2019 to assist in identifying suitable candidates. Following an extensive search and interview process, the board appointed Mr S G Bellamy in June 2019 and Mr N W Hollingworth resigned from the board at the Annual General Meeting in July 2019. A full biography for Mr S G Bellamy is included on page 33;
- **Expansion of Volvo representation:** The Company has represented the Volvo brand for over twenty years from its premises in Eastbourne, East Sussex, and has enjoyed a mutually beneficial relationship with the manufacturer, Volvo UK. During the year under review, the board was advised by Volvo UK that the operating agreement for the dealer in Worthing, West Sussex, had been terminated and that the business would be closing in March 2020. The Company was delighted to receive an offer to extend its representation through the provision of a new dealer agreement for this territory. After giving due consideration to factors such as the likely future profitability of the brand, the levels of investment required for the new business and the attractiveness of the territory being offered, the board decided that it would be in the interests of the Company, and its shareholders, to accept this offer. Premises were sourced in Worthing and the dealership was scheduled for opening in late March 2020. A postponement to the original opening date was required due to the covid-19 pandemic restrictions outlined above but, subsequent to the year-end, the board was able to fully open the new business.

By order of the board

S G M Caffyn
Chief Executive
17 July 2020

Board of Directors

Directors

RICHARD C WRIGHT PG DIp FIMI FCIM
Chairman

SIMON G M CAFFYN MA FIMI
Chief Executive

MICHAEL WARREN BSc ACA
Finance

SARAH J CAFFYN BSc FCIPD AICSA FIMI
Human Resources

NIGEL T GOURLAY BSc FCA
Non-executive and senior independent director

STEPHEN G BELLAMY BCom CA(NZ)
Non-executive

Bankers

HSBC BANK PLC
1st floor, First Point, Buckingham Gate, London Gatwick Airport, West Sussex, RH6 0NT

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

Independent Auditor

BDO LLP
Statutory Auditor, Chartered Accountants
Arcadia House, Maritime Walk, Ocean Village, Southampton, SO14 3TL

Company Secretary

SARAH J CAFFYN BSc FCIPD AICSA FIMI

Registered Office

4 Meads Road, Eastbourne, East Sussex, BN20 7DR
Telephone (01323) 730201

Chairman's Statement on Corporate Governance

This statement explains how the Company has applied the main and supporting principles of corporate governance and describes the Company's compliance with the provisions of the UK Corporate Governance Code (the "Code"), as published in 2018 by the Financial Reporting Council and available at www.frc.org.uk.

The Company has complied throughout the year ended 31 March 2020 with the provisions set out in the Code except that one director has a service contract which runs for more than twelve months, which does not comply with Code provision D.1.5 (see the Directors' Remuneration Report), which recommends that such periods should be for one year or less. The Remuneration Committee reviews the position annually and has decided that it is not in the best interests of the Company to change the existing contract. Additionally, less than half the board, and half the Remuneration and Audit and Risk Committees, are made up of independent non-executives, which does not comply with Code provision 11. The composition of the Audit and Risk Committee, where the Chairman of the board is a member, does not comply with provision 24. The board believes the composition of the board and the committees reflect the compact nature of the board and size of the Company as a whole, and that directors have shown that they are able to work in a collegiate fashion. Finally, the Company Secretary is a member of the Company's defined-contribution pension scheme on the same terms as all other employees. Her bonus payments are therefore pensionable, which does not comply with provision 38.

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

Structure of the board and its key activities

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

Schedule of matters reserved for decision by the board

- Business strategy
- Approval of significant capital projects and investments
- Principal terms of agreements for the Company's principal banking facilities
- Annual business plan and budget monitoring
- Risk management strategy and internal control and governance arrangements
- Approval of acquisitions and divestments
- Changes to management and control structure
- Significant changes to accounting policies or practices
- Financial reporting to shareholders
- Dividend policy
- Health and safety policy
- Changes in employee share incentives
- Reviewing the overall corporate governance arrangements
- Appointments to the board and its committees
- Policies relating to directors' remuneration and service
- Prosecution, defence or settlement of material litigation
- Any alterations to the share capital of the Company
- Approval of all circulars and announcements to shareholders
- Major changes to the Company's pension schemes
- Insurance cover including directors' and officers' liability insurance and indemnification of the directors

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

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

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

Chairman's Statement on Corporate Governance
continued

The board delegates certain of its duties to its Audit and Risk, Nomination and Remuneration Committees, each of which operates within prescribed terms of reference. These are set out on the Company's website. The responsibilities of the board's committees are set out on pages 16 to 18 of this report and in the Directors' Remuneration Report.

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

Performance evaluation

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

Individual director evaluation has shown that each director continues to demonstrate commitment to the role. The non-executive directors, led by the senior independent director, have carried out a performance evaluation of the Chairman after taking account of the views of the executive directors. The Chairman has reviewed the performance of the non-executive directors and the Chief Executive. The Chief Executive has reviewed the other executive directors. The board intends to carry out further performance evaluations but will keep under review the method and frequency.

The latest board evaluation process concluded that the board and its committees were operating effectively, with clear demarcation of the respective responsibilities of individual directors and board committees. The board is satisfied that all directors are each able to devote the amount of time required to attend to the Company's affairs and their duties as a board member. The Chairman discusses the training and development needs of each director.

Board composition and independence

As at 17 July 2020 the board comprised three executive directors and three non-executive directors, one of whom is the Chairman. Mr R C Wright is the non-executive Chairman and Mr S G M Caffyn is the Chief Executive. The Chairman leads the board and the Chief Executive manages the Company and implements the strategy and policies adopted by the board. There is a clear division of responsibility between the role of the non-executive Chairman and the Chief Executive; this is recorded in a written statement that is reviewed and agreed annually by the board. The Chairman is responsible for leadership of the board and ensuring its effectiveness for all aspects of its role.

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

Directors' conflict of interest

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

Balance and challenge

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

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

Re-election of directors

All directors will seek re-election annually in accordance with the latest corporate governance recommendations.

Meetings and attendance

There were seven meetings of the board in the year under review, with Mr N T Gourlay unable to attend one of the meetings. All other directors attended all meetings.

Nomination Committee

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

R C Wright (Chairman)

N T Gourlay

S G Bellamy

S G M Caffyn

The Nomination Committee is responsible for leading the process for appointments to the board and meets at least once a year. The Committee is chaired by Mr R C Wright. The Company Secretary, or alternate, also attends meetings in her capacity as secretary of the Committee. Where the matters discussed relate to the chairman, such as in the case of selection and appointment of the Company Chairman, the senior independent director chairs the Committee. New directors receive a full, formal and tailored induction on joining the board.

The principal responsibilities of the Committee are as follows:

- To regularly review the structure, size and composition of the board and make recommendations to the board regarding any adjustments deemed appropriate;
- To prepare the description of the role and capabilities required for a particular board appointment.

Executive search consultants may be retained as appropriate to assist in this process;
- To identify, and nominate for the approval by the board, candidates to fill board vacancies as and when they arise;
- To satisfy itself, with regard to succession planning, that processes are in place regarding both board and senior appointments; and
- To undertake an annual performance evaluation to ensure that all members of the board have devoted sufficient time to their duties.

The Committee met three times during the year and was responsible for leading the search for a new non-executive director to replace Mr N W Hollingworth. An external recruitment company was appointed to assist in identifying suitable candidates. All members eligible to attend were present at all the meetings.

Audit and Risk Committee

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

N T Gourlay (chairman)

R C Wright

S G Bellamy

The Committee is chaired by Mr N T Gourlay. The Company Secretary, or alternate, also attends meetings in her capacity as secretary of the Committee. The chairman of the Committee is considered by the board as having recent and relevant financial experience. The board also remains satisfied that the Committee as a whole has competence relevant to the sectors in which the Company operates. The chairman of the board is on the Committee due to his experience and the small number of non-executive directors on the board. The board are satisfied with this arrangement. The Audit and Risk Committee meets at least three times a year. The meetings are attended by invitation by the executive directors, the head of the internal audit function and representatives of the Company's external auditor, at the chairman's discretion.

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

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

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

The Committee's third meeting is primarily concerned with:

- Reviewing the Company's systems of control and their effectiveness;
- Significant corporate governance issues, such as those relating to the regulation of financial services;
- Reviewing the external auditor's performance;
- Reviewing the risk register and making recommendations to the board on the content and relative importance of the risks identified;
- Recommending to the board the reappointment, or not, of the external auditor; and
- Reviewing the effectiveness and independence of the external auditor, including monitoring the level of audit and non-audit fees.

The Committee met three times in the year under review with Mr N T Gourlay unable to attend one of the meetings, in November 2019. All other meetings were attended by all directors eligible to attend. The Committee reviewed the effectiveness of the Company's system of internal control and financial risk management during the year, including the review of the Company's risk register, and including consideration of reports from both the internal and external auditors. The Committee reported the results of its work to the board and the board considered these reports when reviewing the effectiveness of the Company's system of internal control which forms part of the board's high-level risk review performed during the year. The effectiveness of the internal audit function was also monitored. The Committee approved the adoption of IFRS 16 Leases with effect from 1 April 2019.

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

- **Review of key strategic risks:** The Committee chairman conducts an annual review of key strategic risks and undertakes site visits in order to ensure that the review includes a detailed understanding of the business. The review highlights the key risks based on a combination of likelihood and impact, and then also considers what appropriate mitigating factors should be implemented (highlights from this work are included in the Strategic Report).
- **Revenue recognition:** The accuracy of cut-off procedures around the year-end date is recognised as important for ensuring that revenue is recognised in the correct accounting period. The Committee has considered the procedures and controls in respect of revenue recognition and has been satisfied that they are satisfactory.

Chairman's Statement on Corporate Governance
continued

- **Review of poorly performing dealerships:** As part of both the interim and year-end review processes, consideration is given to potential impairments of property, plant and equipment, investment property and goodwill relating to poorly performing locations and that any related impairments are provided for. Management then follow up with detailed action plans to either improve dealership performance or seek an exit solution. The Committee also reviews progress on these plans at the following review. As part of the external audit, the Committee fully discusses with the external auditor the identification of cash generating units ("CGUs") for the purposes of impairment testing. The Committee is satisfied that no material impairments are required in relation to the current financial year.
- **Going concern:** The Finance Director provides an assessment of the Company's ability to continue to trade on a going concern basis for at least the next twelve months. Forecasts are based on financial plans agreed with the board (budgets or forecasts), the Company's most recent trading results, and include a range of possible downside scenarios including the impact of the ongoing covid-19 pandemic and the restrictions placed on business in order to combat its effects. The assumptions that underpin the assessments are considered and discussed in detail when the Committee meets. The conclusion of that review is included in the Going Concern section of this report.
- **Inventory valuation:** The value of new and used cars, as well as the provision for slow-moving and obsolete inventory, can have a significant influence on the inventory valuation in the financial statements. The Committee has considered the Company's procedures and controls, which are satisfactory, to reduce the risk of misstatement in relation to inventory valuation.
- **Pensions:** The Company operates a defined-benefit pension scheme, closed to future accrual, which has an excess of liabilities over the value of assets owned by the scheme. The assessment of the valuation of the scheme is based on several key assumptions, which can have a significant impact on the valuation of the deficit. The Committee has considered the assumptions, used for the valuation of the liabilities of the scheme and is satisfied that these are reasonable.

Anti-bribery

During the year, as well as its routine business, the Committee continued to monitor the suitability of the Company's controls designed to combat bribery so as to satisfy itself of the adequacy of its systems and procedures for the prevention of bribery and corruption, particularly in the light of the Bribery Act 2010. It has reviewed the Company's anti-bribery policy statement which has been adopted by the board.

Whistleblowing

The Committee has reviewed the arrangements for its employees to raise, in confidence, concerns about possible improprieties in relation to financial reporting, suspected fraud and dishonest acts, or other similar matters, commonly known as "whistleblowing". The Committee reviews any such reported incidences and any improvements to internal procedures that may be required.

Non-audit services provided by the external auditor

Non-audit services provided by the Company's auditor are kept under review by the Committee. The Company's auditor does not provide compliance services in the field of taxation advice.

The Committee ensures that the auditor's objectivity and independence are safeguarded by ensuring that the level of fees is not material to either the Company nor the auditor. The report from BDO LLP confirming their independence and objectivity was reviewed by the chairman of the Audit and Risk Committee and the Finance Director. The level of fees paid to BDO LLP for non-audit services is not regarded to conflict with auditor independence. Fees payable to the auditor are set out in note 3 to the financial statements.

Effectiveness and independence of the external auditor

Grant Thornton UK LLP had been the external auditor since 1964 and, in accordance with auditor independence rules, would have had to step down by 2021. To facilitate an orderly transition, Grant Thornton UK LLP resigned as external auditor at the Annual General Meeting on 25 July 2019 and were replaced by BDO LLP. As required by section 519 of the Companies Act 2006, Grant Thornton UK LLP confirmed the reason for their resignation was that they were not reappointed after a tender process. There are no contractual obligations that restrict the Audit and Risk Committee's choice of external auditor.

The Committee is also responsible for advising the board on the appointment of the auditor, assessing their independence and formulating policy on the award of non-audit work.

Non-audit work is only awarded to the external auditor after due consideration of matters of objectivity, independence, value for money, quality of service and efficiency.

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

Tax strategy and objective

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

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

Going concern

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

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

The directors have also considered the Company's working capital requirements. The Company meets its day-to-day working capital requirements through short-term stocking loans and bank overdraft, and medium-term revolving credit facilities and term loans. At the year-end, the medium-term banking facilities included a term loan with an outstanding balance of £6.8 million and a revolving credit facility of £7.5 million from HSBC, its primary bankers, with both facilities being renewable in March 2023. HSBC also make available a short-term overdraft facility of £3.5 million, which is renewed annually in August. Subsequent to the year-end, this facility limit was increased to £6.0 million. The Company also has a ten-year term loan from VW Bank with a balance outstanding at 31 March 2020 of £1.9 million, which is repayable to November 2023, and a short-term overdraft facility of £7.0 million, which is renewed annually in August. In the opinion of the directors, there is a reasonable expectation that all facilities will be renewed at their scheduled expiry dates. The failure of a covenant test would render these facilities repayable on demand at the option of the lender.

Information concerning the Company's liquidity and financing risk are set out on page 8 and note 21 to the financial statements.

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

Viability statement

In accordance with provision 28 of the UK Corporate Governance Code, the directors have assessed the viability of the Company over a three-year period to 31 March 2023. The directors believe this period to be appropriate as the Company's strategic review considered by the board encompasses this period. In making their assessment, the directors have considered the Company's current financial position and performance and its cash flow projections, including future capital expenditure, in relation to the availability of finance and funding facilities, and have considered these factors in relation to the principal risks and uncertainties which are included in the Report of the Directors.

During the year to 31 March 2020, the board carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The directors believe that the Company is well placed to manage its business risks successfully, having considered the principal risks and uncertainties. Accordingly, the board believes that, taking into account the Company's current position, and subject to the principal risks faced by the business, the Company will be able to continue in operation and to meet its liabilities as they fall due for the period up to 31 March 2023.

Chairman's Statement on Corporate Governance
continued

Risk management and internal controls

The board is responsible for maintaining a sound system of internal controls, including financial, operational and compliance controls and risk management, and reviews the effectiveness of the system at least annually in order to safeguard shareholders' investment and the Company's assets. The system is designed to manage rather than eliminate risk and can provide only reasonable and not absolute assurance against material misstatement or loss.

The board has completed a robust assessment of the Company's emerging and principal risks, including a description of its principal risks, the procedures that are in place to identify emerging risks, and an explanation of how these risks are being managed or mitigated.

The board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Management are responsible for the identification and evaluation of significant risks applicable to their areas of business together with the design and operation of suitable internal controls. These risks are assessed on a regular basis and may be associated with a variety of internal or external sources, including control breakdowns, disruption to information systems, competition, natural catastrophe, customer or supplier actions and regulatory requirements.

The process used by the board is to review the effectiveness of the system of internal control including a review of legal compliance, health and safety and environmental issues on a six-monthly basis. Insurance and risk management and treasury issues are reviewed annually or more frequently if necessary. In addition, the Audit and Risk Committee reviews the scope of audits, the half-yearly and annual financial statements (including compliance with legal and regulatory requirements) and reports to the board on financial issues raised by both the internal and external audit functions. Financial control is exercised through an organisational structure which has clear management responsibilities with segregation of duties, authorisation procedures and appropriate information systems. The system of annual budgeting with monthly reporting and comparisons to budget is a key control over the business and in the preparation of consolidated accounts.

There is an ongoing programme of internal audit visits to monitor financial and operational controls throughout the Company. The executive directors receive regular reports from the internal audit and health and safety monitoring functions which include recommendations for improvement.

Financial reporting

The directors consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Relations with shareholders

The board values the constructive views of its shareholders and recognises their interest in the Company's strategy and performance, board membership and quality of management. The views of major shareholders are reported back to the board as appropriate. The non-executive directors have also attended meetings with major shareholders. The principal methods of communication with private investors are the Interim Report, the Annual Report and the Annual General Meeting. Information on the Company is also included on its corporate website www.caffynsplc.co.uk.

The Annual General Meeting is used to communicate with investors. The chairmen of the Audit and Risk Committee, Remuneration and Nomination Committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to approve the Annual Report and financial statements. The Company counts all proxy votes and, after it has been dealt with by a show of hands, indicates the level of proxies lodged on each resolution.

Relations with suppliers

The board maintains close relationships with its suppliers and, in particular, with the six motor manufacturers for which it holds franchises: namely Audi, SEAT, Skoda, Vauxhall, Volkswagen and Volvo. The Chief Executive holds regular meetings with these parties and the Company's operations are split into three divisions with the head of each division specifically tasked with maintaining a close and mutually beneficial relationship with their manufacturer. For its wider supplier base, the Company ensures that it operates in an ethical manner, ensuring that invoices are settled within agreed terms. The average credit period taken for trade-related purchases in the year under review was twenty five days.

By order of the board

R C Wright
Chairman
17 July 2020

Directors' Remuneration Report

Annual statement from the chairman of the Remuneration Committee

Introduction

On behalf of your board, I am pleased to present our Directors' Remuneration Report for the year ended 31 March 2020. The Directors' Remuneration Report has been prepared on behalf of the board by the Remuneration Committee in accordance with the requirements of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013, and is split into two sections:

- The directors' remuneration policy sets out the Company's intended policy on remuneration, which will be subject to a binding shareholder vote at the Annual General Meeting on 24 September 2020, and then at least every subsequent third year after that; and
- The annual report on remuneration sets out the payments and awards made to the directors and details the link between company performance and remuneration for the 2020 financial year.

The information set out on pages 22 to 32 (the annual report on remuneration) is subject to audit except for the performance graph and table, the change in remuneration of the Chief Executive, the relative importance of the spend on pay, the implementation of remuneration policy in the year, the considerations by the directors of matters relating to directors' remuneration and the statement of shareholder voting at the 2019 Annual General Meeting.

Remuneration outcomes for the 2020 financial year

Annual bonus opportunities are based on the achievement of underlying profit before tax targets. No bonuses have been awarded to the executive directors in respect of the 2020 financial year, which reflects the financial results against target of the Company for the year.

Key remuneration decisions for the coming 2021 financial year

The Company's annual salary review, effective from 1 April, was deferred in 2020 due to the uncertainties caused by the covid-19 pandemic. No date has been fixed for an annual salary review to take place and there have been no changes to base salaries for the executive directors. Any changes made will not be retrospective and will be disclosed in the 2021 Annual Report.

Conclusion

The directors' remuneration policy that follows this annual statement sets out the Committee's principles on remuneration for the future and the annual report on remuneration provides details of the remuneration for the year ended 31 March 2020.

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

By order of the board

S G Bellamy
Chairman of the
Remuneration Committee
17 July 2020

Director's Remuneration Report continued

Remuneration policy

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

The Company's directors' remuneration policy is voted on every three years and was last approved by shareholders at the Annual General Meeting held on 27 July 2017 and became effective from that date. The full policy was disclosed in the 2017 Annual Report, which is available on the Caffyns plc website located at www.caffynsplc.co.uk.

Future policy table

The new remuneration policy for the coming three financial years, effective from 1 April 2020, is set out below and will be placed before shareholders to seek their approval at the forthcoming rescheduled Annual General Meeting on 24 September 2020.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Base salary			
Provide competitive remuneration that will attract and retain high-calibre executive directors to deliver strategy.	Reviewed annually effective from 1 April to reflect role, responsibility and performance of the individual and the Company, and to take account of rates of pay for comparable roles in similar companies. Paid in twelve equal monthly instalments during the year. When selecting comparators, the Committee has regard to the Company's revenue, market worth and business sector.	There is no prescribed maximum increase although the Committee would carefully consider any increases against those awarded to the Company's employees taken as a whole. The annual rate of any increase is set out in the Annual Report in the section covering remuneration for the current year and the following year.	The Committee considers individual salaries at the appropriate Committee meeting each year taking due account of the factors noted in the operation of the salary policy.
Benefits			
Provide market competitive benefits consistent with the role.	Benefits consist of the provision of a company car, private medical health insurance, business-related and certain other subscriptions, and the opportunity to join any Company savings-related share option scheme.	The cost of providing benefits varies from time to time and is borne wholly by the Company except for the cost of private medical health insurance where the Company contributes half of the cost.	Not applicable.

Purpose and link to strategy	Operation	Maximum potential value	Performance metrics
Annual bonus			
Incentivises achievement of business objectives by providing a reward for performance against annual targets.	Paid in cash after the end of the financial year to which it relates.	Up to 100% of salary.	Targets based on the underlying profit before tax of the Company. The Committee sets threshold and maximum targets on an annual basis. In general: • A percentage of the maximum bonus is payable for hitting the threshold target; and • 100% of the maximum bonus is payable for meeting or exceeding the maximum target. A sliding scale operates between threshold and maximum performance. Payment of any bonus is subject to the discretion of the Committee and, if deemed appropriate, a bonus of up to 10% of salary may be paid in exceptional circumstances despite the threshold target not being reached.
Long-term incentives			
Alignment of interests with shareholders by providing long-term incentives delivered in the form of shares.	Executive directors are able to apply for maximum entitlement under the rules of any Company savings-related share option scheme. No other long-term incentive scheme is considered appropriate for the Company's specific circumstances.	See page 29 for details.	Not applicable.
Pension			
Attract and retain executive directors for the long term by providing funding for retirement.	Executive directors are eligible to join the Company's defined-contribution pension scheme on the same terms as staff generally. In accordance with the rules of the pension scheme, bonuses are pensionable. As a result of changes in pensions' legislation effective from 6 April 2006, executive directors can choose to be paid a salary supplement in lieu of the employers' contribution to the Company's pension scheme.	3% of base salary plus bonus.	Not applicable.

Director's Remuneration Report continued

Notes to the policy table

The remuneration policy is designed to support the strategy and promote long-term sustainable success. There is no link between the levels of remuneration earned by the executive directors and the Company's share price.

The remuneration policy is also linked to company purpose, values and culture.

Performance conditions

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

The performance target for the 2020/21 annual bonus is based on underlying profit before tax as outlined on page 28. However, in determining whether to award a bonus the Committee would also take into account factors such as dividend cover and year-on-year changes to the net asset value of the Company. The Committee is of the opinion that this performance target is commercially sensitive for the Company and that it would therefore be detrimental to the Company to disclose details of the target in advance. The target will be disclosed after the end of the financial year in the Directors' Remuneration Report in next year's Annual Report.

Changes from proposed policy operating in the year ended 31 March 2020

For 2020/21 and onwards, in exceptional circumstances, the Remuneration Committee is proposing to shareholders, for their approval, that it would have the discretion to pay a maximum of 10% of salary as a bonus even if performance were to be below the threshold required.

Differences from remuneration policy for all employees

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

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

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

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

Statement of consideration of shareholder views

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

Approach to recruitment remuneration

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

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

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

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

Directors' service contracts, notice periods and termination payments

Provision	Policy	Details	Contractual provisions on a change of control of the Company	Other provisions in specific service contracts
Notice periods in executive directors' service contracts.	Twelve months by executive directors and the Company.	Executive directors may be required to work during the notice period.	Twelve months by executive directors and the Company.	S G M Caffyn may give six months' notice but is entitled to two years' notice from the Company and an unreduced early retirement pension.
Compensation for loss of office.	No more than twelve months' basic salary, bonus and benefits (including Company pension contributions).	None.	None, except for the Chief Executive.	Termination payment to S G M Caffyn following a change of control comprises a cash amount equal to two years' basic salary, bonus and benefits (including Company pension contributions).
Treatment of annual bonus on termination.	Bonuses that have already been declared are payable in full. In the event of termination by the Company (except for cause) a prorated bonus to the end of the notice period would also be payable.	None.	None.	None.
Treatment of unvested savings-related share option scheme options.	Good leavers may exercise their options within six months of cessation (one year for death). Options of leavers for fraud, dishonesty or misconduct lapse. Options of other leavers may be exercised within six months of cessation, but only to the extent that they would ordinarily become vested during that time. There is no discretion to treat any such leaver as a "good leaver".	Other than death, "good leaver" circumstances comprise: injury, disability, redundancy, retirement or transfer of employing business outside the Company. The number of options that can be exercised is reduced pro rata to reflect the proportion of the vesting period before cessation.	The number of options that can be exercised is reduced pro rata to reflect the proportion of the vesting period before cessation.	Not applicable.
Exercise of discretion.	Intended only to be relied upon to provide flexibility in unusual circumstances.	The Committee's determination would consider the particular circumstances of the executive director's departure and the recent performance of the Company.	Not applicable.	Not applicable.

Director's Remuneration Report continued

Provision	Policy	Details	Contractual provisions on a change of control of the Company	Other provisions in specific service contracts
Outside appointments.	Subject to approval.	Board approval must be sought.	Not applicable.	Not applicable.
Non-executive directors.	Appointed for three-year terms.	Compensation of six months' fees payable if required to stand down.	Not applicable.	Not applicable.

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

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

Service contracts

Executive directors are appointed under rolling service contracts, whereas non-executive directors each have a fixed-term appointment of three years, renewable upon expiry at the Company's discretion. When considering the reappointment of a non-executive director, the board reviews their attendance at, and participation in, meetings and their overall performance, and takes into account the balance of skills and experience of the board as a whole.

Director	Commencement*	Expiry	Unexpired term at 31 March 2020 (months)
R C Wright	27 July 2018	26 July 2021	16 months
N T Gourlay	26 September 2019	25 September 2022	30 months
S G Bellamy	18 June 2019	17 June 2022	27 months

* Commencement of current renewal contract.

N W Hollingworth resigned as a non-executive director at the Company's Annual General Meeting on 25 July 2019. Having served in excess of nine years on the board, he had been seeking reappointment on an annual basis at each Annual General Meeting.

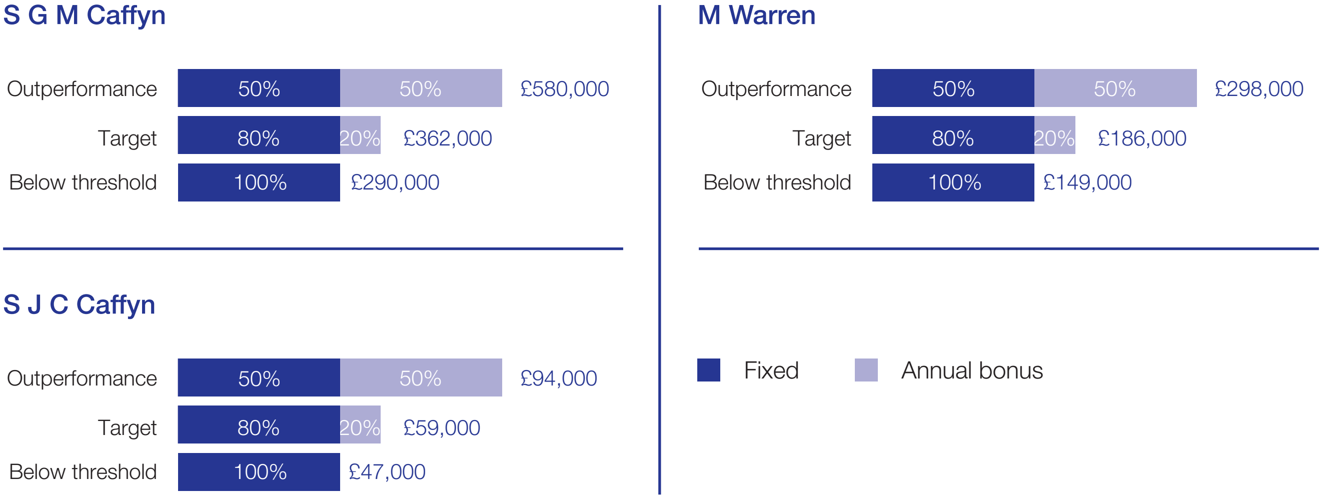
Copies of directors' service contracts and letters of appointment are available for inspection at the Company's registered office.

Fees from external directorships

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

Total remuneration opportunity for the year ending 31 March 2021

The chart below illustrates the remuneration that would be paid to each of the executive directors under three different performance scenarios: (i) below threshold; (ii) on target; and (iii) outperformance.



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

Element	Description
Fixed	Base salary
Annual variable	Annual bonus awards

The on-target scenario assumes that for the annual bonus, underlying profit before tax would be 116% of the threshold target.

Non-executive directors' fee policy

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

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

Our Business
Governance
Financials
Other information

Director's Remuneration Report continued

Annual report on remuneration

Save for the performance graph and table, the change in the remuneration of the Chief Executive, the relative importance of the spend on pay, the implementation of remuneration policy for 2021, the consideration by the directors of matters relating to directors' remuneration and the statement of shareholder voting at the 2019 Annual General Meeting, the information set out in this part of the Directors' Remuneration Report is subject to audit.

Single total figure of remuneration for 2020

The following table shows a single total figure of remuneration in respect of qualifying services for the 2020 financial year for each director, together with comparative figures for 2019. The information provided in this part of the Directors' Remuneration Report is subject to audit.

	Salary and fees £'000		Taxable benefits £'000		Annual bonus £'000		In lieu of pension contributions £'000		Total £'000	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Executive directors										
S G M Caffyn	290	284	20	17	–	54	9	9	319	364
M Warren[1]	140	145	12	14	–	28	4	4	156	191
S J Caffyn	47	46	4	4	–	9	1	1	52	60
Total	477	475	36	35	–	91	14	14	527	615
Non-executive directors										
R C Wright	67	65	–	–	–	–	–	–	67	65
N T Gourlay	30	29	–	–	–	–	–	–	30	29
N W Hollingworth[2]	10	29	–	–	–	–	–	–	10	29
S G Bellamy[3]	23	–	–	–	–	–	–	–	23	–
Total	130	123	–	–	–	–	–	–	130	123
Aggregate directors' emoluments	607	598	36	35	–	91	14	14	657	738

1. The contractual salary of M Warren is £148,569. This was reduced in the year under by review by a sum equivalent to fifteen days' unpaid leave
2. N W Hollingworth resigned at the Company's Annual General Meeting on 25 July 2019
3. S G Bellamy was appointed as a non-executive director on 18 June 2019

Taxable benefits made available to the executive directors include the provision of a company car, a 50% contribution towards the cost of private medical health and the cost of appropriate subscriptions.

Annual bonus

Bonuses are earned by reference to the financial year and paid in May or June following the end of the financial year. Any bonuses accruing to the executive directors in respect of the year ended 31 March 2020 were based on the underlying profit before tax as shown below.

					Bonus value as % of salary					
					S G M Caffyn		M Warren		S J Caffyn	
	Threshold	Target	Maximum	Actual performance	Max	Actual	Max	Actual	Max	Actual
Underlying profit before tax*	£1.55m	£1.77m	£3.48m	£0.25m	100%	0%	100%	0%	100%	0%
Bonus receivable	15%	25%	100%	0%		£0		£0		£0

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

Pension entitlements and cash allowances

One executive director, the Company Secretary, is a deferred member of the Company's closed defined-benefit pension scheme at 31 March 2020 (2019: one). The ultimate pension of the Company Secretary will be provided by the defined-benefit pension scheme, which provides a pension of a maximum of two-thirds of final salary in respect of benefits accrued up to 31 March 2006. From 1 April 2006 until 1 April 2010 when the scheme closed to future accrual, the accrued benefits of this director were based on a "career average" basis and based upon earnings in each financial year. Under the rules of the scheme, the Company Secretary is eligible for a pension at normal retirement age of 65. If early retirement is taken before age 65, the accrued pension is discounted by 5% per annum (2019: 5%) simple, except where the Company consents to early retirement between 60 and 65, and then no discount is applied. Pensions paid increase in line with price indexation which may be limited. On death, one-half of the spouse's pension becomes available. Children's allowances to a maximum, including spouse's pension, of 100% of the executives' pension may be payable. Allowance is made in transfer value payments for discretionary benefits. The total annual accrued pension excludes transferred-in benefits.

	Normal retirement date	Total annual accrued pension at 31 March 2020 £'000	Total annual accrued pension at 31 March 2019 £'000
S J Caffyn	12 December 2033	36	35

The pension for the Company Secretary for service since 2010 has been provided on a contributory basis through the Company's defined-contribution pension scheme. In certain years, the Company Secretary elected not to be included in the defined-contribution pension scheme and instead to be paid a salary supplement in lieu of the employers' contribution to the Company's defined-contribution pension scheme.

In the year to 31 March 2020, one of the executive directors was a member of the Company's defined-contribution pension scheme (2019: none).

The non-executive directors are not members of the Company's defined-contribution pension scheme (2019: none).

Statement of directors' shareholdings

The directors' shareholdings as at 31 March 2020 are summarised within the Report of the Directors.

All-employee share scheme

Details of share options held by executive directors under the Company's savings-related share option scheme, opened in July 2017, are as follows:

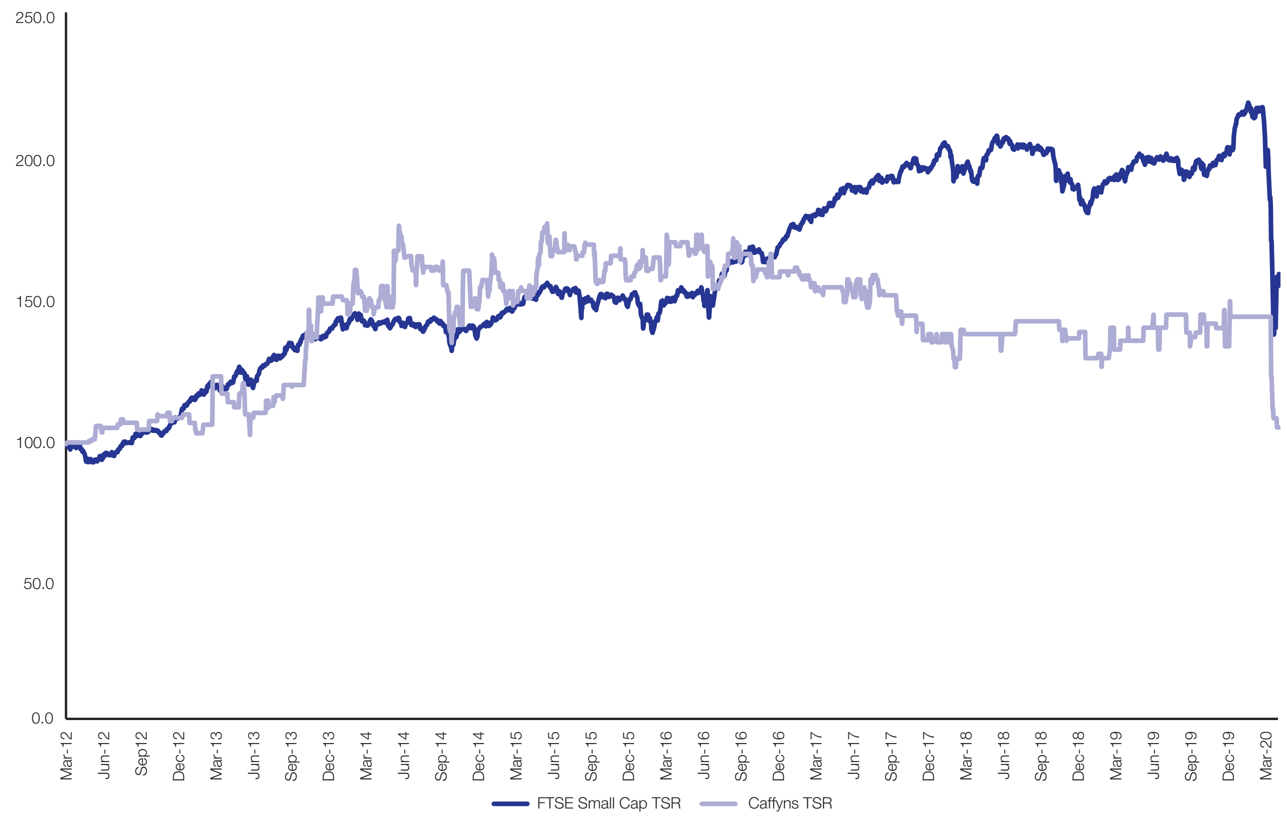
	Scheme	Date of grant	Earliest exercise date	Expiry date	Exercise price £	Number at 1 April 2019	Granted in year	Number at 31 March 2020
S G M Caffyn	ShareSave	12/07/2017	01/09/2020	28/02/2021	3.99	1,434	–	1,434
M Warren	ShareSave	12/07/2017	01/09/2020	28/02/2021	3.99	1,434	–	1,434

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

Director's Remuneration Report continued

Performance graph and table

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



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

	Chief Executive: S G M Caffyn							
Financial years ended 31 March	2013	2014	2015	2016	2017	2018	2019	**2020**
Total single remuneration figure (£'000)	280	534	389	410	388	302	364	**319**
Annual bonus % of maximum opportunity	5%	100%	39%	43%	31%	0%	19%	**0%**

	Salary only £'000	**Total earnings £'000**	**Ratio %**
Single remuneration figure for the Chief Executive	**290**	**319**	
Remuneration for the Company's remaining full time equivalent employees:			
25th percentile	**28**	**40**	**8:1**
Median	**22**	**29**	**11.1**
75th percentile	**14**	**19**	**17:1**

The pay ratio disclosure above complies with Regulation 18 of The Companies (Miscellaneous Reporting) regulations 2018. These ratios have been prepared using Option A in the regulations by ranking the annualised earnings of those employees of the Company in employment on 31 March 2020, the last day of the financial year under review. Earnings includes salary, bonuses, variable elements of pay such as commissions and overtime, holiday and sickness pay, company pension contributions and the taxable value of benefits-in-kind. The Company's Chairman and non-executive directors have been excluded from the calculation as they receive a fee rather than a salary. All employees on zero-hour contracts have been included if they worked in the month of March 2020.

Change in remuneration of Chief Executive

The base salary of the Chief Executive increased between 31 March 2019 and 31 March 2020 by 2%, the same percentage increase compared with the average change for the Company's Regional Directors and Heads of Business. Neither the Chief Executive nor the comparator group received any changes to their employment benefits during the year. The Chief Executive did not receive a bonus for the year, which compared to a 19% bonus in the prior year when the Company's underlying profit before tax exceeded the threshold set under the bonus scheme. The bonuses for the comparator group reduced by 10% compared to the prior year.

The comparator group comprises Regional Directors and Heads of Business and has been selected on the basis that these managers have direct senior operational management responsibilities.

Relative importance of spend on pay

The table below sets out the total spend on pay in the two years to 31 March 2020 compared with other disbursements from profit (i.e. the distributions to shareholders). These were the most significant outgoings for the Company in the last financial year).

	Spend in 2020 £'000	Spend in 2019 £'000	Decrease %
Spend on staff pay (including directors)	**13,670**	13,723	0
Profit distributed by way of dividend	**202**	606	-67

No final dividend has been declared for the year ended 31 March 2020. The total dividend payable in respect of the year to 31 March 2020 is therefore expected to be £202,000 (2019: £606,000).

Implementation of remuneration policy for 2020/21

The annual salaries and fees to be paid to directors in 2020/21 are set out in the table below, together with any increases expressed as a percentage.

	2021 salary/fees £'000	2020 salary/fees £'000	Increase/ (decrease) %
S G M Caffyn	**290**	290	0
M Warren	**149**	149	0
S J Caffyn	**47**	47	0
R C Wright	**67**	67	0
N T Gourlay	**30**	30	0
S G Bellamy[1]	**30**	10	0

1. S G Bellamy was appointed as a non-executive director on 18 June 2019 at an annual fee of £29,700

The salaries shown in the table above are the full contractual salaries and fees for the board members. In response to the impact of covid-19, the Company implemented numerous cost saving measures across many areas of the business and, as part of this cost savings exercise, an annual salary ceiling of £37,500 was implemented for all active employees, including the executive directors and the chairman of the Company, for the month of April 2020. The non-executive directors of the Company also agreed a 20% reduction to their fees. These salary and fee reductions were then unwound in stages with the full time executive directors moving to 50% of their contractual salary from 1 May 2020 and then to 80% of their contractual salary from 1 June 2020. The remuneration of the Chairman remained at the annual ceiling of £37,500 for the month of May and then increased to 80% of his contractual fees for June. All board members returned to their full contractual fee and salary levels from 1 July 2020.

Director's Remuneration Report continued

The basis for determining annual bonus payments for the financial year ending 31 March 2021 is set out in the future policy table in the directors' remuneration report on page 23. The profit targets are considered commercially sensitive because of the information that it could provide to the Company's competitors and consequently these profit targets will only be disclosed after the end of the financial year, in the Directors' Remuneration Report in the 2021 Annual Report.

Consideration by the directors of matters relating to directors' remuneration

The Committee

The Committee is responsible for reviewing and recommending the framework and policy for remuneration of the executive directors and of senior management. The Committee's terms of reference are available on the Company's corporate website. The members of the Committee at 31 March 2020 were Mr S G Bellamy (Chairman), Mr R C Wright and Mr N T Gourlay.

Until his resignation as a non-executive director on 25 July 2019, the Committee was chaired by Mr N W Hollingworth who had been deemed independent until the expiry of his nine-year period of service in January 2017. Mr N T Gourlay was an independent non-executive director throughout the year and Mr S G Bellamy was an independent non-executive director from his appointment on 18 June 2019. The Committee met four times during the year and all members were present.

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

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

Summary of activity during the year ended 31 March 2020

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

- reviewing the basic salaries of the executive directors and reviewing and monitoring the level and structure of remuneration of other senior executives;
- reviewing the basic salary of the Company's Chairman;
- setting the annual performance targets in line with the Company's plan for the 2020/21 financial year and determining the amounts that may potentially be payable for the 2019/20 financial year.

Statement of voting at the 2019 Annual General Meeting

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

Votes for	%	Votes against	%	Abstentions	%
2,621,974	99.76	6,176	0.23	100	0.01

A shareholder vote on the directors' remuneration policy is required at least every third year and was last voted on at the 2017 Annual General Meeting and will be voted on again at the 2020 Annual General Meeting. Votes at the 2017 meeting on the directors' remuneration policy were cast as follows:

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

By order of the board

S G Bellamy
Chairman of the Remuneration Committee
17 July 2020

Report of the Directors

The directors present their report and the financial statements for the year ended 31 March 2020.

Results and dividends

The results of the Company for the year are set out in the financial statements on pages 45 to 86. An interim dividend of 7.5p per share was paid to shareholders on 6 January 2020. The board is not declaring a final dividend (2019: 15.0p) making a total of 7.5p per share (2019: 22.5p). Total ordinary dividends paid in the year amounted to £606,000. Dividends paid in the year to preference shareholders amounted to £72,000 (2019: £72,000) as set out in note 10 to the financial statements.

Future developments of the Company are set out in the Operational and Business Review on pages 2 to 6.

Financial risk management

Consideration of principal risks and uncertainties is included on page 8 and 9 of the Strategic Report, including the management of financial risks. These are also outlined further in note 21 to the financial statements.

Appointment and replacement of the Company's directors

The rules for the appointment and replacement of the Company's directors are detailed in the Company's Articles of Association. Directors are appointed by ordinary resolution at a general meeting by shareholders entitled to vote or by the board either to fill a vacancy or as an addition to the existing board. The appointment of non-executive directors is on the recommendation of the Nominations Committee; the procedure is detailed in the Chairman's Statement on Corporate Governance on page 16.

Directors

Details of the directors who served during the year and who remained in office at 31 March 2020 are set out below. In addition, Mr N W Hollingworth served as a director until his resignation on 25 July 2019, having served in excess of a nine-year term.

Mr R C Wright PG Dip FIMI FCIM was appointed Chairman on 26 July 2012. He joined the board as a non-executive director and Chairman-elect on 1 November 2011. He has previously held senior executive roles with the Ford Motor Company including: Director, European Operations at Jaguar Cars Limited; Director of Sales, Ford Motor Company Limited; and President/ Managing Director of Ford Belgium NV. He was Chairman of API Group plc from 2001 until 31 October 2014, and sat on the advisory board of Warwick Business School, University of Warwick, for several years from 2002 onwards. He is the former Chair of the board of National Savings and Investments, part of HM Treasury. He is currently an advisor to a number of privately held companies including being Chairman of Thames River Moorings Limited.

Mr N T Gourlay BSc FCA, a Chartered Accountant, joined the board as a non-executive director on 26 September 2013. He spent more than twenty years with the BAT plc group of companies, leaving in 2001. In 2003 Mr Gourlay co-founded Animos LLP, a business consultancy of which he remains a partner.

Mr S G Bellamy BCom CA(NZ) joined the board on 18 June 2019 and has been chairman and non-executive director to a wide range of both public and private companies and chairman of, and advisor to, investment committees and capital providers. He was previously Chief Operating Officer and Chief Financial Officer of Sherwood International Plc. Prior to Sherwood, he was a UK Investment Director of Brierley Investments, an active investor in quoted UK companies. He is a New Zealand Chartered Accountant and worked at Coopers & Lybrand (now PwC), both in New Zealand and New York. He is currently also a non-executive director and Audit Chair of Advanced Medical Solutions Group plc, an AIM 30 company.

Mr S G M Caffyn MA FIMI joined the board on 16 July 1992 and was appointed Chief Executive on 1 May 1998. He graduated from Cambridge in 1983 having read engineering, and subsequently worked for Andersen Consulting. He joined the Company in 1990.

Mr M Warren BSc ACA joined the board on 31 May 2016 and was appointed Finance Director on 31 July 2016. He is a Chartered Accountant and spent twenty one years with H.R. Owen plc of which the eight years until April 2015 were as Finance Director. He graduated from Southampton in 1986 having read civil engineering and subsequently worked for PwC.

Ms S J Caffyn BSc FCIPD AICSA FIMI has thirty years' Human Resource experience across several different sectors. She joined the board on 28 April 2003 as Human Resources Director, having previously been Group Personnel Manager and Company Secretary. A Chartered Company Secretary, she has governance experience from several not-for-profit organisations.

Report of the Directors continued

Interests in shares

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

	As at 31 March 2020			As at 31 March 2019		
	Ord	11% Pref	7% Pref	Ord	11% Pref	7% Pref
R C Wright	7,500	–	–	7,500	–	–
S G M Caffyn	51,988	1,600	200	51,988	1,600	200
M Warren	5,000	–	–	5,000	–	–
S J Caffyn	39,232	1,655	–	39,232	1,655	–
N T Gourlay	4,893	–	–	4,893	–	–
S G Bellamy	5,000	–	–	–	–	–

Mr N W Hollingworth held 2,500 Ordinary shares at 31 March 2019 and at the date of his resignation on 25 July 2019.

Mr S G Bellamy was appointed as a director on 18 June 2019 and held no shares at the date of his appointment. He acquired 1,000 Ordinary shares on 3 December 2019, with a further 4,000 Ordinary shares being acquired on 4 December 2019.

Subsequent to the year-end, on 6 May 2020, Mr S G M Caffyn was gifted 25,000 Ordinary shares in the Company ("Ordinary shares") for nil consideration taking his holding in Ordinary shares in the Company to 76,988. On 19 June 2020, Ms S J Caffyn was gifted 14,000 Ordinary shares for nil consideration, of which 7,000 have been placed in trust for her children. Following the transaction, her holding in Ordinary shares in the Company increased to 46,232.

Mr S G M Caffyn and Ms S J Caffyn are directors of Caffyn Family Holdings Limited, which owns all the 2,000,000 6% Cumulative Second Preference shares, which have full voting rights, except in relation to matters that under the Listing Rules (as amended from time to time) are required to be voted on by premium-listed securities, being the Ordinary shares.

The market price of the Company's Ordinary shares at 31 March 2020 was £2.80 and the range of market prices during the year was £2.80 to £4.10.

Compensation for loss of office

In the event of an executive director's employment with the Company being terminated, Mr S G M Caffyn is entitled to receive from the Company a sum equivalent to twice his annual emoluments, which applied immediately before his termination. Ms S J Caffyn is entitled to receive from the Company a sum equivalent to her annual emoluments, which applied immediately before her termination, and Mr M Warren is entitled to receive from the Company a sum equivalent to six months' emoluments, which applied immediately before his termination. Emoluments include a proportion of the available bonus, which the expired part of the measured period for bonus, bears to the whole of such measurement period. The executive directors' service contracts commenced from the date of their appointment to the board.

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

Directors' indemnity and insurance

The Company's Articles of Association permit the board to grant the directors indemnities in relation to their duties as directors in respect of liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the Company. In line with market practice, each director has the benefit of a deed of indemnity. The Company has also purchased insurance cover for the directors against liabilities arising in relation to the Company, as permitted by the Companies Act 2006. This insurance does not cover fraudulent activity.

ShareSave scheme

The Company encourages employee share ownership through the provision of periodic Save As You Earn schemes. The latest scheme, which is administered by the Yorkshire Building Society, was launched in July 2017 with share options for 127,969 Ordinary shares being subscribed. The scheme matures in September 2020 when the share options become exercisable upon expiry of a three-year savings contract at a pre-determined price of £3.99 per share. At 31 March 2020, the number of share options outstanding was 85,372 (2019: 106,330).

Greenhouse gas emissions

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

Employees

Employees are encouraged to discuss with management any matters which they are concerned about and issues affecting the Company. In the 2020/21 financial year the Chief Executive will be visiting each site regularly for a question and answer session with staff. He will report to the board on the outcome of these sessions. In addition, the board takes account of employees' interests when making decisions. Suggestions from employees aimed at improving the Company's performance are welcomed. The board reviews feedback from the employee consultation group on pay and bonuses as well as reviewing all exit interview feedback. The board also meets with senior staff during the strategic review process. The Company has a Human Resources director, Ms S J Caffyn. Further information on employees is set out in the Strategic Report on page 10.

Share capital and the rights and obligations attaching to shares

As at 31 March 2020, the issued share capital of the Company comprised Ordinary shares of 50p each and three classes of preference share, namely 7% Cumulative First Preference shares of £1 each, 11% Cumulative Preference shares of £1 each, and 6% Cumulative Second Preference shares of 10p each. Details of the share capital of the Company are set out in note 25 to the financial statements.

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

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

Holders of Cumulative First Preference shares are entitled, in priority to any payment of dividend on any other class of shares, to a fixed cumulative preferential dividend at the rate of 7% per annum.

Subject to the rights of the holders of Cumulative First Preference shares, holders of 6% Cumulative Second Preference shares of 10p each are entitled in priority to any payment of dividend on any other class of shares to a fixed cumulative preferential dividend at the rate of 6% per annum.

Subject to the rights of the holders of Cumulative First Preference shares and 6% Cumulative Second Preference shares of 10p, holders of 11% Cumulative Preference shares of £1 each are entitled in priority to any payment of dividend on any other class of shares to a fixed cumulative preferential dividend at the rate of 11% per annum. The percentage of the total share capital represented by each class of share as at 31 March 2020 is shown below.

The full rights and obligations attaching to the Company's shares are set out in the Company's Articles of Association, copies of which can be obtained from Companies House or by writing to the Company Secretary.

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

Report of the Directors continued

Property

The Company last valued its portfolio of freehold premises as at 31 March 2020. The valuation was carried out by CBRE Limited, Chartered Surveyors, based on existing use value. The excess of the valuation over net book value at that date was £11.8 million (2019: £11.2 million). In accordance with the Company's accounting policies, this surplus has not been incorporated into these financial statements. The CBRE valuation report included a 'material valuation uncertainty' statement for the potential impact on property values of the covid-19 pandemic and this is explained in more detail in note 12 on page 66.

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

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

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

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

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

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

Significant direct or indirect shareholdings

At 16 July 2020, the directors were aware of the following interests in 3% or more of the nominal value of the Ordinary share capital (excluding treasury shares) of the Company:

	Ordinary shares	%
Maland Pension Fund (Pershing Nominees Ltd RKCLT)	352,500	13.08
Charles Stanley	133,750	4.96
HSBC Republic Bank Suisse SA	128,349	4.76
Caffyns Pension Fund	125,570	4.66
A W Caffyn/B Lees	107,409	3.98
K E Caffyn	104,804	3.89
M I Caffyn	103,495	3.84
Armstrong Investments (Nortrust Nominees)	90,000	3.34
GAM Exempt UK Opportunities Fund	88,267	3.27

Fostering relationships with stakeholders

Details on the Company's engagement with stakeholders in explained in more detail on page 12.

Business at the Annual General Meeting

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

In light of the current covid-19 measures adopted by the Government around social distancing, the Annual General Meeting on 24 September 2020 will be run as a closed meeting and shareholders will not be able to attend in person. Shareholders attempting to attend the Annual General Meeting will, with regret, be refused entry. Shareholders will be invited to register questions in advance of the meeting for the board to answer and answers will be made available after the meeting via the Company's corporate website, www.caffynsplc.co.uk.

Auditor

Grant Thornton UK LLP had been the external auditor since 1964 and, in accordance with the auditor independence requirements of the revised Ethical Standard effective 11 June 2016, would not have been able to have their appointment extended beyond the year ending 31 March 2021. In the light of this length of tenure, the Audit and Risk Committee instigated an audit tender process during the financial year, which resulted in the appointment by the board of BDO LLP as external auditor to the Company. This appointment was subsequently confirmed by shareholders at the Annual General Meeting in July 2019.

By order of the board

S J Caffyn
Company Secretary
17 July 2020

Directors' Responsibilities Statement

The directors are responsible for preparing the Report of the Directors and financial statements in accordance with applicable law and regulations.

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

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

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

The directors confirm that:

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

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

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

To the best of our knowledge:

- the Group financial statements, prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by order of the board

S G M Caffyn
Chief Executive
17 July 2020

M Warren
Finance Director

Report of the Independent Auditor

Opinion

We have audited the financial statements of Caffyns plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 March 2020, which compromise the Group and Company Income Statement, the Group and Company Statement of Comprehensive Income, the Group and Company Statement of Financial Position, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statement, the Principal Accounting Policies and notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2020 and of the Group's and Parent Company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

Conclusions relating to principal risks, going concern and viability statement

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

- the directors' confirmation set out on page 20 in the annual report that they have carried out a robust assessment of the Group's emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated;
- the directors' statement set out on page 19 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group and the Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 19 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Key audit matters

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

Report of the Independent Auditor continued

Key audit matters	How we addressed the key audit matter in the audit
Revenue recognition	
As detailed in the Principal Accounting Policies on pages 52 and 57 of the financial statements, the Group earns revenue from the sale of new and used motor vehicles and through the provision of aftersales services. Sales of motor vehicles are recognised when control of the vehicle has transferred to the customer, typically when the vehicle has been fully paid for and delivered. We consider there to be a risk that vehicle revenues are overstated, with incentives for sales personnel to inflate revenues in order to achieve targets.	We performed an assessment of whether the Group's revenue recognition policies in place complied with IFRS 15 Revenue from Contracts with Customers and ensuring its consistent application. We tested a sample of vehicle receivables to determine whether the sale had been recorded in the correct period. This included agreement to source documentation pertaining to the validity and date of the sale and assessing whether the performance obligation had been satisfied prior to the year-end. We also identified and interrogated vehicle sales transactions during the year with profit margins that were considered to be outside of our expectations based on a threshold informed by industry data. Our procedures involved obtaining an understanding of the key factors that influenced the profit margin and obtaining source documentation in corroborating the transactions. **Key observations:** Based on the procedures performed, we consider that revenue has been appropriately recognised.
Defined benefit pension scheme	
As detailed in the Principal Accounting Policies on page 53 of the financial statements, the Group operates a defined benefit pension scheme, which is accounted for in accordance with IAS 19 Employee Benefits, which requires complex calculations and disclosures. Management exercise a number of judgements and actuarial assumptions, with the assistance from their actuaries, which have a significant impact on the valuation of the pension scheme assets and liabilities recognised on the balance sheet. The valuation of the defined benefit pension scheme is highly sensitive to movements into the key inputs.	We performed an assessment of whether the Group's accounting policy for the defined benefit pension scheme complied with IAS 19 Employee Benefits and ensuring its consistent application. Working with our external actuarial experts, we challenged the appropriateness of the actuarial valuation methodologies and their inherent assumptions such as discount rates, growth rates and mortality rates with reference to relevant market data and industry practice. We also considered the capabilities and competence of management's as well as our own actuarial experts. We also assessed the accuracy of the underlying data utilised in the actuarial valuation through use of source documentation such as the pension scheme accounting records. The pension scheme assets were agreed to external third party investment statements. **Key observations:** Based on the procedures performed, we considered the assumptions and judgements made by management to be reasonable.

Key audit matters	How we addressed the key audit matter in the audit
Impairment review	
The Group's accounting policy on impairment is shown in the Principal Accounting Policies on pages 54 and 55 of the financial statements. Under IAS 36 Impairment of Assets, the directors are required to determine whether the carrying value of the Group's assets, which includes the Group's property, plant and equipment, investment property and goodwill, is impaired. As at 31 March 2020, the carrying amount of the net assets of the Group was more than the market capitalisation, being a potential indicator of impairment. There is judgement in assessing the ability of assets to generate cash inflows largely independent of other assets and therefore also in the identification of appropriate CGUs. In addition, there is significant judgement and estimation involved in determining the recoverable amount of each CGU. This relates to both establishing fair value as part of the fair value less costs to sell method and the key inputs, such as projected future cash flows and the discount rate applied, into the value in use model. As described further in note 12 to the financial statements, the exercise of judgement in respect of CGUs valued on the basis of fair value less costs to sell was heightened due to the surveyor's reference to a material valuation uncertainty in their valuation report. Movements in the judgements and estimates could impact the conclusion of the impairment review and we therefore the matter as a significant audit risk.	We performed an assessment of whether the Group's accounting policies for impairment of assets complied with IAS 36 Impairment of Assets and ensuring its consistent application. We obtained management's assessment of relevant cash generating units (CGUs) used in the impairment calculation and compared those to our understanding of the business units and operating structure of the Group. We also performed arithmetical checks to management's model to provide assurance over its accuracy in comparing CGU recoverable amounts to the relevant carrying values. We agreed property valuations used for the purposes of impairment testing to the valuation report and considered the qualification and independence of the third party surveyor engaged by management. In relation to the property valuations, we considered the implications of the material valuation uncertainty and sought alternative sources of valuation data such as property yields and consultation with internal and external real estate specialists. Where CGUs are valued based on value in use, we critically assessed estimated future cash flows with reference to past performance and the potential impact of the covid-19 pandemic and challenged the appropriateness of the inputs and valuation methodology, including the discount rate applied, through use of our internal valuation experts. For both fair value less costs to sell and value in use bases of valuation, we performed sensitivity analysis on the assumptions. **Key observations:** Based on the procedures performed, we considered management's impairment review to be appropriate.

Report of the Independent Auditor continued

Key audit matters	How we addressed the key audit matter in the audit
Going concern	
In light of the covid-19 pandemic and the resultant economic uncertainty, as described in the going concern accounting policy, we considered the ability of the Group to operate within its facilities and continue as a going concern in this environment to be a key audit matter. Management has forecast a number of scenarios, including a downside sensitised forecast, with significant forecast revenues removed as a stress test, to ensure that the Group can continue to operate within its existing bank facilities. This is described further in the going concern accounting policy.	Our procedures included reviewing management's assessment of going concern through analysis of the Group's cash flow forecast through to 31 July 2021, including assessing and challenging the assumptions underlying the forecasts. As part of this process, and taking account of the covid-19 pandemic, we reviewed the reverse stress testing to ascertain the levels of revenue decline that would cause a cash shortage at any point in management's post balance sheet assessment period and considering the likelihood that those fact patterns could occur based on factors such as the nature of the Group's customer base and the visibility of contracted revenues. We also obtained an understanding of the financing facilities, including the nature of facilities, repayment terms and covenants. We then assessed the facility headroom calculations on both a base case scenario, and management's downside scenarios as a result of the ongoing covid-19 pandemic. In addition, we performed our own sensitivity calculations on management's downside scenarios to consider alternative possible trading scenarios and considered the adequacy of the disclosures in the financial statements.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Group and Company materiality: £80,000

Materiality in respect of the audit of the Group and Company was set at £80,000 using a benchmark of 8% of the three-year average result before taxation, which we consider to be a key performance measure for the Group and its members in assessing financial performance.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement is that performance materiality for the financial statements should be 65% of planning materiality, namely £52,000. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of £80,000 for the financial statements as a whole.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £1,600. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The scope of our group audit was established by obtaining an understanding of the Group, including its control environment, and assessing the risks of material misstatement.

We obtained an understanding of the entity-level controls of the Group as a whole which assisted us in identifying and assessing risks of material misstatement due to fraud or error, as well as assisting us in determining the most appropriate audit strategy.

The Group's operations are based in the United Kingdom.

We identified four components, one of which was considered significant and subject to a full-scope audit by the audit team. Three of the components identified were dormant subsidiary undertakings and considered to be non-significant. The non-significant components were subject to desktop review.

Capability of the audit in detecting irregularities including fraud

Based on our understanding of the Group, we considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and UK Listing Rules. We evaluated management incentives and opportunities for fraudulent manipulation of the financial statements including management override, and considered that the principal risk were related to the posting of inappropriate journal entries to improve the result before tax for the year.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

Procedures performed by the group audit team included:

- Discussions with management regarding known or suspected instances of non-compliance with laws and regulations;
- Evaluation of controls designed to prevent and detect irregularities; and
- Assessing journals entries as part of our planned audit approach.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Other information

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

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

We have nothing to report in this regard.

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

- **Fair, balanced and understandable (set out on page 38)** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting (set out on pages 17 and 18)** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code (set out on page 15)** – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Report of the Independent Auditor continued

Opinions on other matters prescribed by the Companies Act 2006

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

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

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of directors

- As explained more fully in the Directors' Responsibilities Statement set out on page 38, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- In preparing the financial statements, the directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Other matters that we are required to address

Following the recommendation of the Audit Committee, we were appointed by the board of directors on 25 July 2019 to audit the financial statements for the year ending 31 March 2020 and subsequent financial periods. The period of total uninterrupted engagement is one year, covering the year ending 2020.

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

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

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions, we have formed.

Stephen Le Bas
(Senior Statutory Auditor)
For and on behalf of BDO LLP,
Statutory Auditor
Southampton
United Kingdom

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

17 July 2020

Income Statement

for the year ended 31 March 2020

Group and Company

	Note	2020 £'000	2019 £'000
Revenue	1	**197,854**	209,246
Cost of sales		**(172,850)**	(183,317)
Gross profit		**25,004**	25,929
Operating expenses			
Distribution costs		**(16,035)**	(15,913)
Administration expenses		**(8,025)**	(9,843)
Operating profit before other income		**944**	173
Other income (net)	4	**728**	802
Operating profit		**1,672**	975
Operating profit before non-underlying items		**1,633**	2,626
Non-underlying items within operating profit	2	**39**	(1,651)
Operating profit	3	**1,672**	975
Finance expense	6	**(1,382)**	(1,181)
Finance expense on pension scheme	7	**(187)**	(222)
Net finance expense		**(1,569)**	(1,403)
Profit/(loss) before taxation		**103**	(428)
Profit before tax and non-underlying items		**251**	1,445
Non-underlying items within operating profit	2	**39**	(1,651)
Non-underlying items within finance expense on pension scheme	2	**(187)**	(222)
Profit/(loss) before taxation		**103**	(428)
Taxation	8	**(355)**	(138)
Loss for the year		**(252)**	(566)
(Deficit)/earnings per share			
Basic	9	**(9.4)p**	(21.0)p
Diluted	9	**(9.4)p**	(21.0)p
Underlying earnings per share			
Basic	9	**(4.9)p**	35.3p
Diluted	9	**(4.9)p**	35.3p

See accompanying notes to the financial statements.

Statement of Comprehensive Income

for the year ended 31 March 2020

Group and Company

	Note	2020 £'000	2019 £'000
Loss for the year		(252)	(566)
Items that will never be reclassified to profit and loss:			
Remeasurement of net defined benefit liability	23	(1,169)	1,510
Deferred tax on remeasurement	24	222	(257)
Effect of change in deferred tax rate		154	–
Total other comprehensive (expense)/income, net of taxation		(793)	1,253
Total comprehensive (expense)/income for the year		(1,045)	687

See accompanying notes to the financial statements.

Statement of Financial Position

at 31 March 2020

	Note	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Non-current assets					
Right-of-use assets	11	925	–	925	–
Property, plant and equipment	12	38,783	39,225	38,783	39,225
Investment properties	13	8,052	8,169	8,052	8,169
Interest in lease	14	730	–	730	–
Goodwill	15	286	286	286	286
Deferred tax asset	24	–	–	–	–
Investment in subsidiary undertakings	16	–	–	250	250
		48,776	47,680	49,026	47,930
Current assets					
Inventories	17	39,728	34,468	39,728	34,468
Trade and other receivables	18	4,318	8,796	4,318	8,796
Interest in lease	14	178	–	178	–
Current tax recoverable		66	–	66	–
Cash and cash equivalents		1,478	3,908	1,478	3,908
		45,768	47,172	45,768	47,172
Total assets		94,544	94,852	94,794	95,102
Current liabilities					
Interest-bearing overdrafts and loans	20	5,875	4,875	5,875	4,875
Trade and other payables	19	38,346	39,886	38,596	40,136
Lease liabilities	22	491	–	491	–
Current tax payable		–	103	–	103
		44,712	44,864	44,962	45,114
Net current assets		1,056	2,308	806	2,058
Non-current liabilities					
Interest bearing loans and borrowings	20	11,844	12,625	11,844	12,625
Lease liabilities	22	1,362	–	1,362	–
Preference shares	25	812	812	812	812
Retirement benefit obligations	23	9,434	8,576	9,434	8,576
		23,452	22,013	23,452	22,013
Total liabilities		68,164	66,877	68,414	67,127
Net assets		26,380	27,975	26,380	27,975
Capital and reserves					
Share capital	25	1,439	1,439	1,439	1,439
Share premium account		272	272	272	272
Capital redemption reserve		707	707	707	707
Non-distributable reserve		1,724	1,724	1,724	1,724
Retained earnings		22,238	23,833	22,238	23,833
Total equity attributable to shareholders		26,380	27,975	26,380	27,975

The financial statements were approved by the board of directors and authorised for issue on 17 July 2020 and were signed on its behalf by:

R C Wright
Chairman

M Warren
Finance Director

See accompanying notes to the financial statements.

Company number: 105664

Statement of Changes in Equity

for the year ended 31 March 2020

Group and Company

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

for the year ended 31 March 2019

Group and Company

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

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

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

Cash Flow Statement

for the year ended 31 March 2020

Group and Company

	Note	2020 £'000	Restated 2019 £'000
Net cash (outflow)/inflow from operating activities	27	**(802)**	3,759
Investing activities			
Proceeds on disposal of property, plant and equipment		**–**	10
Purchases of property, plant and equipment		**(980)**	(2,755)
Net cash outflow from investing activities		**(980)**	(2,745)
Financing activities			
Overdraft facility utilised		**1,000**	1,000
Secured loans repaid		**(781)**	(875)
Dividends paid		**(606)**	(606)
Repayment of lease liabilities		**(261)**	–
Net cash outflow from financing activities		**(648)**	(481)
Net (decrease)/increase in cash and cash equivalents		**(2,430)**	533
Cash and cash equivalents at beginning of year		**3,908**	3,375
Cash and cash equivalents at end of year		**1,478**	3,908

	2020 £'000	2019 £'000
Cash and cash equivalents	**1,478**	3,908
Bank overdrafts	**(5,000)**	(4,000)
Net cash and cash equivalents	**(3,522)**	(92)

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

See accompanying notes to the financial statements.

Principal Accounting Policies

Basis of preparation and statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU, International Financial Reporting Interpretations Committee ("IFRIC") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below. The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based upon management's best knowledge of the amount, events or actions, actual results may ultimately differ from those estimates.

The estimated and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by the directors in the application of accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

New and revised standards

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

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

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

The revised accounting policy under IFRS 16 is as follows:

Significant accounting policies – Leases

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

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

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

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

Transition

The Company predominantly owns the freeholds of the properties from which it operates but, at the date of implementation of the Standard, had two properties subject to operating leases. One of these properties was leased on to a third party where the terms of the sub-lease mirror those of the Company's own lease. Upon adopting IFRS 16, one lease has been recognised as a right-of-use asset with a corresponding lease liability while the Company's interest in the second lease, sub-let to a third party, has been recognised as an asset with a corresponding lease liability.

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

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

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

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

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

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

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

At the date of authorisation of these financial statements, there are no new Standards, or amendments to existing Standards, that have been published by the International Accounting Standards Board that are not effective, and, in some cases not yet been adopted by the EU that would have a material impact on the Group.

Going concern

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

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

The directors have also considered the Company's working capital requirements. The Company meets its day-to-day working capital requirements through short-term stocking loans and bank overdraft and medium-term revolving credit facilities and term loans. At the year-end, the medium-term banking facilities included a term loan with an outstanding balance of £6.8 million and a revolving credit facility of £7.5 million from HSBC, its primary bankers, with both facilities being renewable in March 2023. HSBC also make available a short-term overdraft facility of £3.5 million, which is renewed annually in August. Subsequent to the year-end, this facility limit was increased to £6.0 million. The Company also has a ten-year term loan from VW Bank with a balance outstanding at 31 March 2020 of £1.9 million, which is repayable to November 2023, and a short-term overdraft facility of £7.0 million, which is renewed annually in August. In the opinion of the directors, there is a

Principal Accounting Policies continued

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 8 and note 21 to the financial statements.

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

Basis of consolidation

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

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

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

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

Acquisitions

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

Goodwill

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

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

Revenue recognition

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

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

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

The obligation of supplying vehicle parts to customers is satisfied when the customer takes delivery of the goods.

Supplier income

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

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

Non-underlying items

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

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

All other activities are treated as underlying.

Leasing

Lessee

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee or where the criteria of IFRS 16 requires the lease to be capitalised. All other leases are classified as operating leases. IFRS 16 Leases was implemented from 1 April 2019 and prior year comparatives were not restated.

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

Lessor

The Company leases certain properties under operating leases. Substantially all the risks and rewards of ownership are retained by the Company and the assets are stated at historical cost less depreciation. Provision for depreciation of all property, plant and equipment is made in equal annual instalments over their estimated useful lives.

Borrowing costs

All borrowing costs are recognised in the Income Statement in the period in which they are incurred unless the borrowing costs are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised.

Retirement benefit costs

The Company operates the Caffyns Pension Scheme, which is a defined benefit pension scheme. The defined benefit scheme defines the amount of pension benefit that an employee will receive on retirement, dependent on one or more factors including age, years of service and final salary. The Scheme was closed to new members in 2006 and to future accrual in April 2010.

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

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

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

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

Share-based employee compensation

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

All share-based compensation is ultimately recognised as an expense in the Income Statement with a corresponding credit to retained earnings, net of deferred tax where applicable in the Statement of Financial Position. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Service and performance vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Non-vesting conditions, such as the employee's requirement to continue to save under the SAYE scheme, are considered when determining the fair value of the award. Estimates are subsequently revised if there is any indication that the number of share

Principal Accounting Policies continued

options expected to vest differs from previous estimates. No adjustment to the expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated. Failure by the employee to meet a vesting condition is treated as a cancellation.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Taxation

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

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

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

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

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

Property, plant and equipment

Land and buildings used in the business are stated in the Statement of Financial Position at cost. The property held at the date of transition to IFRSs in 2007 was recognised at deemed cost, being the carrying amount at the date of transition to IFRSs. The date of the last valuation undertaken under its previous GAAP was in 1995.

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

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

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

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

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

Freehold buildings – 50 years

Leasehold buildings – period of lease

Plant and machinery, fixtures and fittings – 3 to 10 years

In the prior accounting period, leasehold land was accounted for as an operating lease.

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

Investment property

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

Impairment

a. Impairment of goodwill: Goodwill is tested annually for impairment. If an impairment provision is made, it cannot subsequently be reversed.
b. Impairment of property, plant and equipment: At each financial year-end date, the Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash inflows that are independent from other assets, the Company estimates the recoverable amount of the CGU to which it belongs.

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

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset (CGU) is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other groups of assets. Management have determined that the CGUs are the individual dealerships for each franchise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost represents the purchase price plus any additional costs incurred.

Vehicle inventories include owned vehicles used for demonstration purposes and as courtesy cars for service customers. Consignment vehicles are regarded as being under the effective control of the Company and are included within inventories on the Statement of Financial Position as the Company has substantially all the significant risks and rewards of ownership even though legal title may not yet have passed. The corresponding liability is included in trade and other payables. Parts inventories are valued at cost and are written down to net realisable value, in accordance with normal industry practice, by providing for obsolescence on a time in stock basis.

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

Cash and cash equivalents

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

Investments in subsidiary undertakings

Investments in subsidiary undertakings are included at cost less amounts written off if the investment is determined to have been impaired and are included in the Parent Company’s separate financial statements.

Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are recorded at their fair value on initial recognition (normally the proceeds received less transaction costs that are directly attributable to the financial liability) and subsequently at amortised cost under the effective interest method. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to profit or loss using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables

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

Other payables include obligations relating to consignment stock and vehicle stocking loans.

Principal Accounting Policies continued

Obligations relating to consignment stock relate to new cars supplied by manufacturers on consignment terms and the full purchase price can be funded.

Vehicle stocking loans relates to creditors in relation to used vehicles and is funded up to a level generally 80% of market value of the used car based on independent market guides. The utilisation is recorded at fair value with associated interest charged to profit or loss. Cash flows relating to these arrangements are included in operating cash flows.

Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium includes any premium received on the sale of shares. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any corporation tax benefits.

The capital redemption reserve comprises the nominal value of ordinary and preference share capital purchased by the Company in prior years and cancelled.

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

Retained earnings includes all current and prior period retained profits.

Where any company in the Group purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued any consideration received, net of any directly attributable incremental transactions costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Preference shares

Preference shares are accounted for as non-current liabilities, as they have the attributes of debt. Preference dividends are accounted for as finance charges within finance expenses.

Financial instruments

Recognition, initial measurement and re-recognition

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

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

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

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

Financial assets at amortised cost

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

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all receivables. The expected loss rates are based on the payment profile of sales over 36 months before the year-end date, or the first day of the accounting period under review respectively, and the corresponding historical losses expected in the period. The Company also considers future expected credit losses due to circumstances in addition to historical loss rates.

Notes to the Financial Statements

for the year ended 31 March 2020

1. General information

Caffyns plc is a company incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on page 14. Its revenue is attributable to the sole activity of operating as a motor retailer in the south-east of the United Kingdom and comprises revenue from:

	2020 £'000	2019 £'000
Sale of goods	186,417	197,888
Rendering of services	11,437	11,358
Total revenue	197,854	209,246

Sales of motor vehicles, parts and aftersales services

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

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

The Group recognises revenue from the provision of aftersales services when the service has been completed, at which point customers have an obligation to pay in full. The Group typically receives cash equal to the invoice amount for most direct retail sales to consumers at the time the service has been completed. Payment terms on sales to corporate customers typically range from 30 to 60 days.

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

Due to the nature of the Group's contractual relationships with customers and the nature of the services provided there are no timing differences between revenue recognised in the Income Statement and trade receivables being recognised in the Statement of Financial Position.

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

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

Contract liabilities

Where the Group receives an amount of consideration in advance of completion of performance obligations under a contract with a customer, the value of the advance consideration is initially recognised as a contract liability within liabilities. Revenue is subsequently recognised as the performance obligations are completed over the period of the contract (i.e. as control is passed to the customer). Contract liabilities are presented within trade and other payables in the Statement of Financial Position and disclosed in note 19 Trade and Other Payables. Approximately one-third of the value of these liabilities would be anticipated to be recognised as revenue in each of the next three financial years.

Contract costs

The Group applies the practical expedient in paragraph 94 of IFRS 15 Revenue from Contracts and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less. The Group is satisfied that any incremental costs incurred in obtaining contracts that extend for more than one year is immaterial.

Notes to the Financial Statements continued

for the year ended 31 March 2020

1. General information (continued)

Transaction price allocation to remaining performance obligations

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

Segmental reporting

Based upon the management information reported to the chief operating decision maker, the Chief Executive, in the opinion of the directors the Company has one reportable segment. The Company physically operates and is managed from individual dealership sites although strategic and investment decisions are made based on dealership groupings or market territories. The Company's individual dealerships represent a range of manufacturers but are considered to have similar economic characteristics, such as margin structures, and offer similar products and services to a similar customer base. As such, the results of each dealership have been aggregated to form one reportable segment. There are no major customers amounting to 10% or more of revenue. All revenue and non-current assets derive from, or are based in, the United Kingdom.

2. Non-underlying items

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

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

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

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

- a sum of £334,000 was recovered in respect of a VAT claim submitted to HM Revenue & Customs for VAT incorrectly accounted for on dealer contributions towards vehicle sales between 2012 and 2017. Net of costs of recovery, a credit of £315,000 was recognised to profit;
- a periodic VAT inspection from HM Revenue & Customs identified certain items of non-compliance with relevant legislation. In the prior period, a sum of £164,000 was charged against profit to cover all items that had been resolved but not yet settled at the year-end;

2. Non-underlying items (continued)

- a sum of £27,000 was received from the liquidators of MG Rover Group Limited;
- following the setting of a legal precedent regarding the issue of equalisation of Guaranteed Minimum Pensions relating to the members of the defined-benefit pension scheme, a sum of £851,000 was charged against profit as being the best estimate of the cost of equalising pension entitlements between men and women;
- the carrying values of two freehold properties were impaired by a total of £945,000 following advice from the Company's independent valuer, CBRE Limited (see notes 12 and 13).

3. Operating profit

Operating profit has been arrived at after charging/(crediting):	2020 £'000	2019 £'000
Employee benefit expense (see note 5)	15,494	16,366
Depreciation of property, plant, equipment and investment property		
– owned assets	1,537	1,356
– right-of-use assets	256	–
Impairments of property, plant and equipment	1,356	945
Net loss on disposal of property, plant and equipment	–	6
Operating lease rentals payable – land and buildings	83	500
Operating lease rentals receivable – land and buildings	(708)	(708)

The Company applies the exemption in IFRS 16 Leases not to recognise right-of-use assets and liabilities for leases with a duration of less than twleve months and these leases have continued to be treated as operating leases. The comparative figures for the prior period have not been restated.

Operating profit has been arrived at after charging:	2020 £'000	2019 £'000
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	69	76
Fees payable to the Company's auditor and its associates for other services:		
– pursuant to legislation being review of interim financial statements	13	12
– in respect of the audit of the Caffyns plc Occupational Pension Scheme	–	11
	82	99

During the year, the Company tendered its statutory audit and BDO LLP replaced Grant Thornton UK LLP as the Statutory Auditor. The statutory audit of the Caffyns plc Occupational Pension Scheme continues to be performed by Grant Thornton UK LLP.

A description of the work of the Audit and Risk Committee is set out in the Chairman's Statement on Corporate Governance on page 17 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the Statutory Auditor.

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Notes to the Financial Statements continued

for the year ended 31 March 2020

3. Operating profit (continued)

The Company refers to underlying profit and underlying EBITDA as being key alternative performance measures when considering the results for the year. These performance metrics can be reconciled to the Company's result for the year as follows:

	2020 £'000	2019 £'000
Loss for the year	(252)	(566)
Tax charge (note 8)	355	138
Profit/(loss) before tax	103	(428)
Net finance expense (notes 6 and 7)	1,569	1,403
Non-underlying items within operating profit (note 2)	(39)	1,651
Depreciation charged on property, plant and equipment, right-of-use assets and investment properties (notes 11, 12 and 13)	1,795	1,356
Underlying earnings before interest, tax, depreciation and amortisation ("EBITDA")	3,428	3,982

4. Other income

	2020 £'000	2019 £'000
Rent receivable	708	523
Compensation claim received	–	285
Liquidation distribution received	22	–
Loss on disposal of tangible fixed assets	(2)	(6)
Other income	728	802

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

5. Employee benefit expense

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

	2020 £'000	2019 £'000
Sales	128	130
Aftersales	208	208
Administration	83	83
Average number of full time equivalent employees	419	421

Employee benefit expense, including directors, during the year amounted to:	2020 £'000	2019 £'000
Wages and salaries	13,670	13,723
Social security costs	1,320	1,336
Redundancy costs	–	1
Contributions to defined contribution plans	292	206
Cost of equalisation of Guaranteed Minimum Pensions (see notes 2 and 23)	–	851
Other pension costs (see note 23)	212	249
Employee benefit expense	15,494	16,366

5. Employee benefit expense (continued)

Directors' emoluments were:	2020 £'000	2019 £'000
Salaries and short-term employee benefits	**657**	738

Details of the directors' remuneration are provided in the Directors' Remuneration Report on pages 21 to 32.

Key management compensation:	2020 £'000	2019 £'000
Salaries and short-term employee benefits	**1,136**	1,221

Key management personnel includes the directors and other key operational employees.

6. Finance expense

	2020 £'000	2019 £'000
Interest payable on bank borrowings	**440**	356
Interest payable on inventory stocking loans (see note 19)	**741**	648
Interest on lease liabilities	**24**	–
Finance costs amortised	**105**	105
Preference dividends (see note 10)	**72**	72
Finance expense	**1,382**	1,181

No interest was capitalised in the current period.

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

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

7. Finance expense on pension scheme

	2020 £'000	2019 £'000
Defined benefit pension scheme net finance expense (see note 23)	**187**	222

8. Tax

	2020 £'000	2019 £'000
Current tax		
UK corporation tax	**–**	(261)
Adjustments recognised in the period for current tax of prior periods	**22**	(22)
Total credit/(charge)	**22**	(283)
Deferred tax (see note 24)		
Origination and reversal of temporary differences	**(356)**	21
Adjustments recognised in the period for deferred tax of prior periods	**(21)**	124
Total (charge)/credit	**(377)**	145
Tax charged in the Income Statement	**(355)**	(138)

Notes to the Financial Statements continued

for the year ended 31 March 2020

8. Tax (continued)

The tax (charge)/credit arises as follows:	2020 £'000	2019 £'000
On normal trading	(383)	(494)
On non-underlying items (see note 2)	28	356
Tax charged in the Income Statement	(355)	(138)

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

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

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

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

Factors affecting the future tax charge

The Company has unrelieved advance corporation tax of £1.4 million (2019: £1.4 million), which is available to be utilised against future mainstream corporation tax liabilities and is accounted for in deferred tax (see note 24).

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

9. Earnings per ordinary share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. Treasury shares are treated as cancelled for the purposes of this calculation.

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

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

	Underlying		Basic	
	2020 £'000	2019 £'000	**2020 £'000**	2019 £'000
Profit/(loss) before tax	**103**	(428)	**103**	(428)
Adjustments:				
Non-underlying items (note 2)	**148**	1,873	**–**	–
Profit/(loss) before tax	**251**	1,445	**103**	(428)
Tax (note 8)	**(383)**	(493)	**(355)**	(138)
Profit/(loss) after tax	**(132)**	952	**(252)**	(566)
(Deficit)/earnings per share (pence)	**(4.9)p**	35.3p	**(9.4)p**	(21.0)p
Diluted (deficit)/earnings per share (pence)	**(4.9)p**	35.3p	**(9.4)p**	(21.0)p

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

The number of fully paid ordinary shares in circulation at the year-end was 2,694,790 (2019: 2,694,790). The weighted average number of shares in issue for the purposes of the earnings per share calculation were 2,694,790 (2019: 2,694,790). The shares granted under the Company's SAYE scheme have not been treated as dilutive as the market price at 31 March 2020 of £2.80 was less than the option price of £3.99.

Notes to the Financial Statements continued

for the year ended 31 March 2020

10. Dividends

	2020 £'000	2019 £'000
Preference shares		
7% Cumulative First Preference	12	12
11% Cumulative Preference	48	48
6% Cumulative Second Preference	12	12
Included in finance expense (see note 6)	72	72
Ordinary shares		
Interim dividend paid in respect of the current year of 7.5p (2019: 7.5p)	202	202
Final dividend paid in respect of the March 2019 year end of 15.0p (2018: 7.5p)	404	404
	606	606

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

11. Right-of-use assets

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

The Company implemented IFRS 16 with effect from 1 April 2019 and the accounting policy adopted is set out in detail on pages 50 and 51. In addition to one lease that was capitalised on implementation of IFRS 16, one further property was added in the year as a result of a lease entered into by the Company in December 2019.

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

12. Property, plant and equipment

Group and Company	Freehold property £'000	Assets under construction £'000	Leasehold improvements £'000	Fixtures & fittings £'000	Plant & machinery £'000	Total £'000
Cost or deemed cost						
At 1 April 2018	37,410	3,869	690	4,876	5,595	52,440
Additions at cost	–	1,567	–	635	553	2,755
Transfer to Investment Properties	(2,098)	–	–	–	–	(2,098)
Transfers	5,436	(5,436)	–	–	–	–
Disposals	–	–	–	(707)	(62)	(769)
At 31 March 2019	40,748	–	690	4,804	6,086	52,328
Cost or deemed cost						
At 1 April 2019	**40,748**	**–**	**690**	**4,804**	**6,086**	**52,328**
Additions at cost	**4**	**–**	**38**	**461**	**477**	**980**
Disposals	**–**	**–**	**–**	**(45)**	**(46)**	**(91)**
At 31 March 2020	**40,752**	**–**	**728**	**5,220**	**6,517**	**53,217**
Accumulated depreciation						
At 1 April 2018	4,180	–	384	3,473	4,339	12,376
Depreciation charge for the year	544	–	61	391	252	1,248
Impairments for the year	545	–	–	–	–	545
Transfer to Investment Properties	(314)	–	–	–	–	(314)
Disposals	–	–	–	(696)	(56)	(752)
At 31 March 2019	4,955	–	445	3,168	4,535	13,103
Accumulated depreciation						
At 1 April 2019	**4,955**	**–**	**445**	**3,168**	**4,535**	**13,103**
Depreciation charge for the year	**575**	**–**	**62**	**471**	**312**	**1,420**
Disposals	**–**	**–**	**–**	**(43)**	**(46)**	**(89)**
At 31 March 2020	**5,530**	**–**	**507**	**3,596**	**4,801**	**14,434**
Net book value						
31 March 2020	**35,222**	**–**	**221**	**1,624**	**1,716**	**38,783**
31 March 2019	35,793	–	245	1,636	1,551	39,225
31 March 2018	33,230	3,869	306	1,403	1,256	40,064

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

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

Depreciation and impairment charges of £1,420,000 (2019: £1,248,000) in respect of property, plant and equipment is recognised within administration expenses in the Income Statement.

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

Notes to the Financial Statements continued

for the year ended 31 March 2020

12. Property, plant and equipment (continued)

The fair value measurement of the CGU in its entirety was categorised as a Level 3 within the hierarchy set out in IFRS 13 Fair Measurement. The following were key assumptions on which the directors based their determination of fair value less costs of disposal in respect of that CGU:

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

The freehold properties were revalued externally at 31 March 1995 by Herring Baker Harris, Chartered Surveyors, at open market value for existing use (which is close to the then fair value). Freehold properties acquired since that date and the other assets listed above are stated at cost in accordance with IAS 16 Property, Plant and Equipment.

The Company valued its portfolio of freehold premises and investment properties as at 31 March 2020. The valuation was carried out by CBRE Limited, Chartered Surveyors, in accordance with the Royal Institution of Chartered Surveyors valuation – global and professional standards requirements. The valuation is based on existing use value which has been calculated by applying various assumptions as to tenure, letting, town planning, and the condition and repair of buildings and sites including ground and groundwater contamination. The outbreak of the novel coronavirus (covid-19), declared by the World Health Organisation as a "Global Pandemic" on the 11 March 2020, had a significant impact on global financial markets and travel restrictions were implemented by many countries. Market activity was adversely impacted in many sectors. As at the valuation date, CBRE therefore considered that they could attach less weight to previous market evidence for comparison purposes, when informing opinions of value. Indeed, they noted in their report that the current response to covid-19 meant that they were faced with an unprecedented set of circumstances on which to base a judgement. Their valuations were therefore reported as being subject to a 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution – should be attached to their valuation than would normally be the case, given the unknown future impact that covid-19 might have on the real estate market. CBRE noted in their report, for the avoidance of doubt, that the inclusion of their 'material valuation uncertainty' declaration above did not mean that the valuation could not be relied upon. Rather, the declaration was included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty could be attached to the valuation than would otherwise be the case. CBRE noted that the material uncertainty clause was to serve as a precaution and did not invalidate the valuation. Other than in relation to the caveat noted above, management are satisfied that this valuation is materially accurate. The excess of the valuation over net book value as at 31 March 2020 of those sites was £11.8 million (2019: £11.2 million). In accordance with the Company's accounting policies, this surplus has not been incorporated into these financial statements.

13. Investment properties

Group and Company:	2020 £'000
Cost	
At 1 April 2019 and 31 March 2020	**9,650**
Accumulated depreciation	
At 1 April 2019	1,481
Depreciation for the year	117
At 31 March 2020	**1,598**
Net book value	
At 31 March 2020	**8,052**
Net book value	
At 31 March 2019	8,169

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

The Company owns a freehold property that is leased out to a third party motor retail group, and accordingly accounts for the property as an investment property. In the prior year, an impairment charge of £400,000 was recognised in the Income Statement, as part of administration expenses. This investment property represents the only asset included in that CGU. In assessing this property for impairment, the directors based their assessment of the recoverable amount on fair value less selling costs.

The fair value measurement of the CGU in its entirety was categorised as a Level 3 within the hierarchy set out in IFRS 13 Fair Measurement. The valuation technique that is used to measure the fair value less costs of disposal is consistent with that applied in respect of the Company's property, plant and equipment, which is set out in note 12. The following are key assumptions on which the directors based their determination of fair value less costs of disposal in respect of that CGU:

- Market value of buildings per square foot: £211
- Market value of site per acre: £2,670,000
- Initial and reversionary yields: 6.7% and 7.0% respectively
- Costs of disposal: 1.5% of fair value

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

14. Net investment in lease

Group and Company:	2020 £'000	2019 £'000
Due after more than one year	730	–
Due within one year	178	–
At 31 March 2020	**908**	–

The Company implemented IFRS 16 with effect from 1 April 2019 and the accounting policy adopted is set out in detail on pages 50 and 51.

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.

Notes to the Financial Statements continued

for the year ended 31 March 2020

15. Goodwill

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

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

Goodwill impairment reviews are undertaken annually, or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable and a potential impairment may be required. Impairment reviews have been performed for all CGUs for the years ended 31 March 2020 and 2019.

Valuation basis

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

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

The recoverable amount of the Volkswagen, Brighton CGU is based on value in use. Value in use is calculated using cash flow projections for a five-year period from 1 April 2020 to 31 March 2025. These projections are based on the most recent budget which has been approved by the board being the budget for the year ending 31 March 2021. The key assumptions in the most recent annual budget on which the cash flow projections are based relate to expectations of sales volumes and margins, and expectations around changes in the operating cost base. These assumptions are based on past experience, adjusted to expected changes, and on external sources of information. The cash flows include ongoing capital expenditure required to maintain the dealership, but exclude any growth capital expenditure projects to which the Group was not committed at the reporting date.

Growth rates, ranging from -25% (2019: -5%) to 131% (2019: 70%) have been used to forecast cash flows for a further four years beyond the budget period, through to 31 March 2025. These growth rates reflect the products and markets in which the CGU operates. These growth rates do not give rise to an impairment. Growth rates are internal forecasts based on a combination of internal and external information.

Discount rate

The cash flow projections have been discounted using a rate derived from the Group's pre-tax weighted average cost of capital, adjusted for industry and market risk. The discount rate used was 12.4% (2019: 12.4%).

15. Goodwill (continued)

Terminal growth rate

The cash flows subsequent to the forecast period are extrapolated into the future over the useful economic life of the CGU using a steady or declining growth rate that is consistent with that of the product and industry. These cash flows form the basis of what is referred to as the terminal value. The growth rate to perpetuity beyond the initial budgeted cash flows used in the value in use calculations to arrive at a terminal value is 0.5% (2019: 0.5%). Terminal growth rates are based on management's estimate of future long-term average growth rates.

Conclusion

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

Sensitivity to changes in key assumptions

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

16. Investments in subsidiary undertakings

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

Company:	2020 £'000
Cost	
At 1 April 2019 and 31 March 2020	**476**
Provision	
At 1 April 2019 and 31 March 2020	**226**
Net book value	
At 31 March 2020	**250**
At 31 March 2019	250

17. Inventories

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

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

Notes to the Financial Statements continued

for the year ended 31 March 2020

17. Inventories (continued)

All vehicle inventories held under consignment stocking arrangements are deemed to be assets of the Group and are included on the Statement of Financial Position from the date of consignment. The corresponding liabilities to the manufacturers are included within trade and other payables. Inventories can be held on consignment for a maximum consignment period set by the manufacturer, which is generally between 180 and 365 days. Interest is payable in certain cases for part of the consignment period, at various rates indirectly linked to the Bank of England base rate.

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

18. Trade and other receivables

Group and Company:	2020 £'000	2019 £'000
Trade receivables	3,004	7,517
Allowance for doubtful debts	(7)	(2)
	2,997	7,515
Other receivables	1,321	1,281
At 31 March 2020	4,318	8,796

All amounts are due within one year.

The Group makes an impairment provision for all debts that are considered unlikely to be collected. At 31 March 2020 trade receivables were shown net of an allowance for impairment of £7,000 (2019: £2,000). The charge recognised during the year was £5,000 (2019: £4,000).

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

Group and Company:	2020 £'000	2019 £'000
Not impaired:		
Neither past due nor impaired	2,957	7,465
Past due up to three months but not impaired	40	50
At 31 March 2020	2,997	7,515

Group and Company:	2020 £'000	2019 £'000
The movement in the allowance for impairment during the year was:		
At 1 April 2019	2	4
Impairment recognised in the Income Statement	5	2
Utilisation	–	(4)
At 31 March 2020	7	2

All amounts are due within one year

Credit risk

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

The Company's credit risk is primarily attributable to its trade receivables that are due on the earlier of the presentation of the invoice or the expiry of a credit term. The amounts presented in the Statement of Financial Position are net of allowances for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment. Consequently, the directors consider that the carrying amount of trade and other receivables approximates to their fair value.

18. Trade and other receivables (continued)

Before granting any new customer credit terms the Company uses external credit rating agencies to assess the potential new customer's credit quality and to define credit facility limits to be made available. These credit limits and creditworthiness are regularly reviewed. The concentration of credit risk is limited due to the customer base being large and unrelated. The Company has no customer that represents more than 5% of the total balance of trade receivables.

19. Trade and other payables

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

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

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

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

The Group utilises vehicle stocking loans to assist with the purchase of certain used car inventory. Facilities are available from both its manufacturer partners and a third-party finance provider and are generally available for a period of 90 days from the date of purchase. These vehicle stocking loans attract interest at a commercial rate.

Interest charges on consignment stocking loans and vehicle stocking loans described above for the year ended 31 March 2020 were £741,000 (2019: £648,000).

The obligations relating to consignment stock are all subject to retention of title clauses for the vehicles to which they relate. Obligations for used and demonstrator cars which have been funded are secured on the vehicles to which they relate and are shown above as vehicle stocking loans. From a risk perspective, the Company's funding is split between manufacturers through their related finance arms and that funded by the Company through bank borrowings.

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

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

Notes to the Financial Statements continued

for the year ended 31 March 2020

20. Interest-bearing loans and borrowings

Group and Company:	2020 £'000	2019 £'000
Current liabilities:		
Secured bank loans and overdrafts	5,875	4,875
Non-current liabilities:		
Secured bank loans	11,844	12,625
At 31 March 2020	**17,719**	17,500

Note 21 sets out the maturity profile of non-current liabilities.

The directors estimate that there is no material difference between the fair value of the Company's borrowings and their book value.

The loan and overdraft facilities provided to the Company of £26.7 million (2019: £27.5 million) are secured by a general debenture and fixed charges over certain freehold properties.

21. Financial instruments

The Group utilises financial instruments such as bank loans and overdrafts and new and used vehicle stocking loans to finance its operations and to manage the interest rate and liquidity risks that arise from those operations and from its sources of finance. The disclosures below apply to the Group and the Company unless otherwise noted.

Group and Company:		2020 carrying value & fair value £'000	2019 carrying value & fair value £'000
Fair value of financial assets and liabilities:			
Primary financial instruments held or issued to finance operations	Classification		
Long-term bank borrowings (note 20)	Financial liability measured at amortised cost	(11,844)	(12,625)
Bank overdraft (note 20)	Financial liability measured at amortised cost	(5,000)	(4,000)
Other short-term bank borrowings (note 20)	Financial liability measured at amortised cost	(875)	(875)
Trade and other payables (note 19)	Financial liability measured at amortised cost	(37,205)	(38,139)
Trade and other receivables (note 18)	Financial asset at amortised cost	4,318	8,796
Cash and cash equivalents	Financial asset at amortised cost	1,478	3,908
Preference share capital (note 25)	Financial liability measured at amortised cost	(812)	(812)
The amounted noted in the above table are the same for the Company apart from:			
Trade and other payables (note 19)	Financial liability measured at amortised cost	(37,455)	(38,389)

21. Financial instruments (continued)

Financial risk management

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

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

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

Capital management

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

The board's policy is to maintain a strong capital base to facilitate market confidence and safeguard the Group's ability to continue as a going concern while maximising the return on capital to the Group's shareholders. The Group monitors its capital through closely scrutinising and reviewing its cash flows. The capital of the Group is £26.4 million and comprises share capital, share premium, retained earnings and other reserve accounts: the capital redemption reserve, the non-distributable reserve and the other reserve. In order to maintain or adjust the capital structure, the Group may adjust the level of dividends paid to the holders of ordinary shares, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's ratio of net bank loans and overdrafts to equity was 62% at 31 March 2020 (2019: 49%). Capital requirements imposed externally by HSBC are that borrowings should not exceed 70% of the current open-market value for existing use of the Group's freehold properties which are subject to a fixed charge.

The underlying pre-tax return as a proportion of equity for the year was 1.0% (2019: 5.2%).

The Company has occasionally repurchased its own shares in the market and cancelled them to promote growth in earnings per share. There is no predetermined plan for doing this although the Company has permission from its shareholders to buy back up to 15% of its equity in any one financial year. The Company may also purchase its own shares to satisfy share incentives issued to employees and these shares are then held as treasury shares.

Treasury policy and procedures

The Company's activities expose it primarily to the financial risks of changes in interest rates. There are no fixed rate borrowings other than preference shares.

Funding and liquidity risk management

The Group finances its operations through a mixture of retained profits and borrowings from bank, vehicle stocking credit lines and operating cash flow. The Group's policy is to maintain a balance between committed and uncommitted facilities and between term loans and overdrafts. Facilities are maintained at levels in excess of planned requirements and at 31 March 2020 the Group had undrawn floating rate borrowing facilities of £10.5 million (2019: £13.9 million) represented by overdrafts and revolving-credit facilities which would be repayable on demand, in respect of which all conditions precedent had been met. The Group is not directly exposed to foreign currency risk.

Interest rate management

The objective of the Group's interest rate policy is to minimise interest costs while protecting the Group from adverse movements in interest rates. Borrowings at variable rates expose the Group to cash flow interest rate risk whereas borrowings at fixed rates expose the Group to fair value interest rate risk. The Group does not currently hedge any interest rate risk.

Notes to the Financial Statements continued

for the year ended 31 March 2020

21. Financial instruments (continued)

Interest rate risk sensitivity analysis

As all of the Group's borrowings and vehicle stocking credit lines are floating rate instruments, they therefore have a sensitivity to changes in market rates of interest. The effect of a 100 basis points change in interest rates for floating rate instruments outstanding at the period end, on the assumption that the instruments at the period end were outstanding for the entire period, would change interest charges by £236,000 (219: £215,000) before tax relief.

Credit risk management

The Group's receivables are all denominated in sterling. The Group is exposed to credit risk primarily in respect of its trade receivables and financial assets. Trade receivables are stated net of provision for estimated impairment losses. Exposure to credit risk in respect of trade receivables is mitigated by the Group's policy of only granting credit to certain customers after an appropriate evaluation of their credit risk. Credit risk also arises in respect of amounts due from manufacturers in relation to bonuses and warranty receivables. This risk is mitigated by the range of manufacturers dealt with, the Group's procedures in effecting timely collection of amounts due, and management's belief that it does not expect any manufacturer to fail to meet its obligations. Finance assets comprise cash balances. The counterparties are major banks and management do not expect any counterparty to fail to meet its obligations. The maximum exposure to credit risk is represented by the carrying amount of the financial asset in the Statement of Financial Position.

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

Group and Company:	**2020 carrying value & fair value £'000**	2019 carrying value & fair value £'000
Bank balances and cash equivalents	**1,478**	3,908

All borrowings are denominated in sterling. The effective interest rates for all borrowings are based on bank base rates. Information regarding classification of balances and interest and the range of interest rates applied in the year to 31 March 2020 are set out in the following table:

	Carrying value & fair value £'000	Classification	Interest classification	Interest rate range
Current: within one year or on demand				
Overdraft	**5,000**	Amortised cost	Floating	Base rate + 1.80%
Term loan	**500**	Amortised cost	Floating	VBBR* + 1.75%
Term loan	**375**	Amortised cost	Floating	LIBOR** + 1.75%
Trade and other payables	**36,123**	Amortised cost	–	–

	Carrying value & fair value £'000	Classification	Interest classification	Interest rate range
Not repayable within one year				
Term loan	**1,500**	Amortised cost	Floating	VBBR* + 1.75%
Term loan	**6,344**	Amortised cost	Floating	LIBOR** + 1.75%
Revolving-credit facility	**4,000**	Amortised cost	Floating	LIBOR** + 1.80%
Preference share capital	**812**	Amortised cost	Fixed	–

* Volkswagen Bank Base Rate, a base rate calculated by Volkswagen Bank United Kingdom Branch to replace Finance House Base Rate (FHBR), a rate previously calculated by the Finance & Leasing Association. Publication of FHBR ceased on 31 December 2019.

* London Interbank Offered Rate.

21. Financial instruments (continued)

The maturity of non-current borrowings is as follows:

Group and Company:	2020 £'000	2019 £'000
Between one and two years	875	875
Between two and five years	10,969	2,500
Over five years	812	10,062
At 31 March 2020	12,656	13,437

Maturities include lease liabilities and amounts drawn under revolving-credit facilities. The maturities of lease liabilities represent the undiscounted future repayments on those leases. The Company's revolving-credit facility can continue to be drawn in whole or part at any time under a facility which will continue until 2023. The maturities of the revolving-credit facility represent the final payment dates for those drawn facilities as at 31 March 2023. If the amounts drawn at the year-end were redrawn at the Group's usual practice of three-monthly drawings, the total cash outflows, assuming interest rates remain at the same rates as at year-end, are estimated on an undiscounted basis as follows:

Group and Company:	2020 £'000	2019 £'000
Within six months	308	53
Six to twelve months	308	53
More than twelve months	5,659	4,317
Contractual cash flows	6,275	4,423

IFRS 16 Leases was implemented with effect from 1 April 2019. The comparative figures shown for maturities for the year ended 31 March 2019 have not been restated.

The Group has a term loan with HSBC, entered into in March 2018, originally of £7.5 million, at a rate of interest of 1.75% above LIBOR. The loan has a five-year term and is repayable over 20 years. To assist in partially mitigating the impact of the covid-19 pandemic, HSBC agreed to suspend capital repayments on the term loan for the first and second calendar quarters of 2020. Therefore, the balance outstanding on this term loan at 31 March 2020 was £6.8 million (2019: £7.1 million) with capital repayments in the year of £0.28 million, rather than the usual £0.38 million. HSBC also make available to the Group a revolving-credit facility of £7.5 million at a rate of interest of 1.8% above LIBOR. This facility has a five-year term and expires in March 2023. The balance drawn as at 31 March 2020 was £4.0 million (2019: £4.0 million). These facilities are subject to covenants which are tested half-yearly with respect to debt/freehold property values and interest cover and which were passed at 31 March 2020. HSBC have confirmed to the Company their agreement to a relaxation in the covenant tests for September 2020 and March 2021 which provides reasonable comfort to the directors that these tests will be successfully passed at those times. The failure of a covenant test would render these facilities repayable on demand at the option of the lender.

The Group also has a bank term loan from Volkswagen Bank United Kingdom Branch, which carries a rate of interest of 1.75% above VBBR. The loan is repayable over its ten-year term which expires in December 2024. Similarly to HSBC, VW Bank agreed to suspend capital repayments on the term loan for the months of April and May 2020.

No reduction in term loan or revolving-credit facilities is expected to apply consequent to the trading results for the year ended 31 March 2020.

The Group also had £10.5 million of combined annual overdraft facilities (£13.0 million during peak periods around the bi-annual registration change months of March and September) from HSBC and Volkswagen Bank United Kingdom Branch and these facilities are next due for renewal in August 2020. Subsequent to the year-end, HSBC agreed to an all-year round overdraft limit of £6.0 million, from £3.5 million. The directors have every expectation that these facilities will be renewed based on the current discussions with the relevant banks. The two overdrafts carry an interest rate of 1.85% above bank base rate and 2.64% above VBBR, respectively.

Notes to the Financial Statements continued

for the year ended 31 March 2020

21. Financial instruments (continued)

The Group has granted security to HSBC and Volkswagen Bank United Kingdom Branch by way of a general debenture over its assets and a fixed charge over certain freehold property. The total value of those assets at 31 March 2020 in the Statement of Financial Position was £66.9 million (2019: £74.1 million). The Group has also granted security to its defined-benefit pension scheme by way of fixed charge over certain freehold property. This charge ranks in priority behind those charges granted to HSBC and Volkswagen Bank United Kingdom Branch.

The ongoing costs associated with the bank facilities are included in finance expense (see note 6).

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

22. Lease liabilities

Group and Company:	2020 £'000
Deemed liability	
At 1 April 2019, on implementation	2,038
Additions in the year	234
Interest charge for the year	24
Lease payments	(443)
At 31 March 2020	**1,853**
Due in less than one year	491
Due after more than one year	1,362
At 31 March 2020	**1,853**

The Company implemented IFRS 16 with effect from 1 April 2019 and the accounting policy adopted is set out in detail on pages 50 and 51. In addition to two leases that were capitalised on implementation of IFRS 16, one further property was added in the year as a result of a lease entered into by the Company in December 2019.

Lease repayments on right-of-use assets in the period were £261,000 with £182,000 relating to interest in leases.

23. Retirement benefit scheme

Group and Company

Description of scheme

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

The Trustees are responsible for the operation and governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy, in conjunction with the Company. The assets of the Caffyns Pensions Scheme, administered by Capita Employee Solutions, are held separately from those of the Company, being held in separate funds by the trustees of the Caffyns Pensions Scheme. The Scheme rules do not impose a restriction on the level of Scheme asset that may be reported under IAS 19. The Scheme has been registered with the Pensions Regulator and is subject to the scheme-specific funding requirements as outlined in UK legislation. The liabilities are determined by a qualified actuary based on triennial valuations using the projected unit method. The most recent completed valuation was at 31 March 2017 with the next valuation in progress and effective from 31 March 2020.

23. Retirement benefit scheme (continued)

Description of expected cash flows to and from the Scheme

As part of the 31 March 2017 funding valuation the Trustees and the Company agreed a recovery plan with a view to eliminating the scheme-specific funding shortfall by 31 July 2028. Over the year to 31 March 2020 the Company contributed £523,000 (2019: £511,000) to fund the existing deficit of which £491,000 (2019: £480,000) was in relation to deficit-reduction contributions. Based on the recovery plan, over the year to 31 March 2021 the Company would be expected to contribute £502,000 in relation to deficit-reduction contributions. In addition, the Company is expected to make contributions towards risk benefits and to meet the cost of administrative expenses and Pension Protection Fund levies.

The liabilities of the Scheme are based on the current value of expected benefit payment cash flows to members of the Scheme over the next 70 to 80 years. The average duration of the liabilities is approximately 16 years. Expected benefit payments in the year to 31 March 2021 are £4,212,000.

Risks to the Scheme

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

More specifically, the Scheme exposes the Company to actuarial risks such as:

- **Interest rate risk** – the present value of the defined-benefit liability is calculated using a discount rate determined by reference to market yields of corporate bonds whereas the Scheme holds a mixture of investments. A decrease in market yield on high quality corporate bonds will increase the Company's defined-benefit liability, although it is expected that this would be offset partially by an increase in the fair value of certain of the Scheme's assets;
- **Investment risk** – the Scheme's assets at 31 March 2020 are invested by an appointed fiduciary management company, SEI Investments (Europe). The investment in various types of asset funds is intended to reduce risk while maintaining planned returns;
- **Longevity risk** – the Company is required to provide benefits for life for the members of the Caffyns Pensions Scheme. Increases in life expectancy of the members will increase the defined-benefit liability;
- **Inflation risk** – a significant proportion of the defined-benefit liability is linked to inflation. An increase in the inflation rate will increase the Company's liability. A portion of the Scheme's assets are inflation-linked debt securities, which would mitigate some of the effect of inflation.

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

Results of most recent actuarial valuation

The assumptions which have the most significant effect on the results of the valuation are those relating to rates of mortality, the discount rate used to reflect the present value of scheme liabilities, and the rate of inflation. The last actuarial valuation as at 31 March 2017 showed that the market value of the assets of the Caffyns Pensions Scheme were £90.4 million and that the actuarial value of those assets represented 87% of the value of the benefits that had accrued to employees at that date. The deficit arising at 31 March 2017 of £13.5 million compared to a deficit of £9.5 million under IAS 19 and was due to different assumptions being adopted for the triennial valuation. The payments agreed with the trustees of the Caffyns Pensions Scheme under the recovery plan were for deficit-reduction cash payments to be made in the year ended 31 March 2018 of £480,000 with payments increasing annually from 1 April 2019 by the greater of 2.25% or the percentage increase in annual shareholder dividends paid until 31 July 2028.

The costs and liabilities of the Caffyns Pensions Scheme are based on actuarial valuations. The latest full actuarial valuation carried out at 31 March 2017 was updated to 31 March 2020 by Willis Towers Watson, independent qualified actuaries, for the requirements of IAS 19. Details of the actuarial assumptions are as follows:

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23. Retirement benefit scheme (continued)

	2020	2019
Mortality tables used: females	97% of SAPS series 2	97% of SAPS series 2
Mortality tables used: males	100% of SAPS series 2	100% of SAPS series 2
Future improvements in mortality	CMI2018 + 1.25%	CMI2018 + 1.25%
Discount rate	2.20%	2.25%
Inflation (CPI)	1.75%	2.20%
Pension increase for in-payment benefits (CPI max 5%)	1.90%	2.25%

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

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	+/– £1.4 million
Rate of inflation	Increase/decrease by 0.1%	+/– £1.1 million
Pension increases	Increase/decrease by 0.1%	+/– £0.8 million
Mortality	Increase/decrease by 0.1%	+/– £4.6 million

The fair value of assets of the Caffyns Pensions Scheme for each class of asset, all of which have a quoted market price in an active market, are as follows:

	Market value	
	2020 £'000	2019 £'000
LDI fund	11,080	18,044
Growth fund	69,500	68,258
Equity instruments	501	543
At 31 March 2020	81,081	86,845

A fiduciary manager, SEI Investments (Europe) operates with the objective of improving the performance of the assets of the Caffyns Pensions Scheme. Assets of the Scheme (excluding cash in the trustees' administrative bank account) at 31 March 2020 were invested 13% (2019: 21%) in LDI funds, 86% (2019: 78%) in return enhancing growth funds and 1% (2019: 1%) in Caffyns plc shares.

In accordance with the requirements of IAS 19 Employee Benefits, the expected return on assets is based on the discount rate noted above of 2.20% and not the return on the underlying portfolio of investments. Consequently, the charge to the Income Statement for the year ending 31 March 2021 is expected to be approximately £226,000.

Equity instruments include shares in Caffyns plc, which are detailed in note 25.

The assumptions used by the actuary are the best estimates based on market conditions chosen from a range of possible actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice. The international accounting standards assumptions have been updated at 31 March 2020 and differ from those used for the earlier independent statutory actuarial valuation, as explained above.

Life expectancy at age 65 (in years):	2020 Male	2020 Female	2019 Male	2019 Female
Member currently aged 65	21.6	23.8	21.5	26.6
Member currently aged 45	22.9	25.3	22.8	25.1

A liability for the defined-benefit pension scheme deficit is included in the Statement of Financial Position under the heading of non-current liabilities.

23. Retirement benefit scheme (continued)

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

	2020 £'000	2019 £'000
At 1 April 2019	(8,576)	(9,497)
Expense recognised in the Income Statement	(212)	(1,100)
Contributions received	523	511
Net remeasurement recognised in other comprehensive income	(1,169)	1,510
At 31 March 2020	(9,434)	(8,576)

In the prior year, in October 2018, the High Court issued a judgement which requires pension schemes to equalise members' benefits to address the unequal effect of Guaranteed Minimum Pensions between genders. An allowance for the liabilities to increase by 0.9% was made for the estimated cost of Guaranteed Minimum Pensions equalisation and the resultant charge of £851,000 was included in the prior year charge to the Income Statement.

Total expense recognised in the Income Statement

	2020 £'000	2019 £'000
Interest cost	2,100	2,240
Interest income on Scheme assets	(1,913)	(2,018)
Interest – net (see note 7)	187	222
Current service cost	25	27
	212	249

Changes in the present value of the defined-benefit pension obligation

	2020 £'000	2019 £'000
At 1 April 2019	95,421	95,480
Service cost	25	27
Past service cost – scheme amendments	–	851
Interest cost	2,100	2,240
Actuarial (gains)/losses – experience	(365)	212
Actuarial losses /(gains) – demographic assumptions	377	(2,226)
Actuarial (gains)/losses – financial assumptions	(2,887)	3,180
Benefits paid	(4,156)	(4,343)
At 31 March 2020	90,515	95,421

Movement in the fair value of scheme assets

	2020 £'000	2019 £'000
At 1 April 2019	86,845	85,983
Interest income	1,913	2,018
Actuarial (gains)/losses – financial assumptions	(4,044)	2,676
Contributions paid by the Company	523	511
Benefits paid	(4,156)	(4,343)
At 31 March 2020	81,081	86,845

Notes to the Financial Statements continued

for the year ended 31 March 2020

23. Retirement benefit scheme (continued)

Reconciliation of the impact of the asset ceiling

The Company has reviewed the implications of the guidance provided in IFRIC 14 and has concluded that it is not necessary to make adjustments to the IAS 19 disclosures at 31 March 2020 as any scheme surplus would be available to the Company unconditionally by way of a refund, assuming the gradual settlement of scheme liabilities over time until all members had left the Caffyns Pensions Scheme.

24. Deferred tax

Group and Company

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

	Accelerated tax depreciation £'000	Unrealised capital gains £'000	Retirement benefit obligations £'000	Sale of business £'000	Short-term temporary differences £'000	Recoverable ACT £'000	Total £'000
At 1 April 2018	(1,112)	(683)	1,613	(848)	6	1,136	112
Transfer	–	(848)	–	848	–	–	–
Change in tax rates and prior year adjustments	267	14	–	–	(16)	–	265
Timing differences	(83)	160	102	–	2	(301)	(120)
Recognised in other comprehensive income	–	–	(257)	–	–	–	(257)
At 31 March 2019	(928)	(1,357)	1,458	–	(8)	835	–
At 1 April 2019	(928)	(1,357)	1,458	–	(8)	835	–
Change in tax rates and prior year adjustments	117	(409)	17	–	(1)	–	(276)
Timing differences	(131)	76	(59)	28	(14)	–	(100)
Recognised in other comprehensive income	–	–	376	–	–	–	376
At 31 March 2020	(942)	(1,690)	1,792	28	(23)	835	–

The Company carries a balance of surplus unrelieved advanced corporation tax ("ACT") which can be utilised to reduce corporation tax payable subject to a restriction of 19% of taxable profits less shadow ACT calculated at 25% of shareholder ordinary dividends. Shadow ACT has no effect on the corporation tax payable itself but any surplus shadow ACT on dividends must be fully absorbed before surplus unrelieved ACT can be utilised. The value of surplus ACT is £1,136,000 (2019: £1,136,000) and shadow ACT is £845,000 (2019: £694,000).

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

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

The unrealised capital gains include deferred tax on gains recognised on revaluing the land and buildings in 1995 and where potentially taxable gains arising from the sale of properties have been rolled over into replacement assets. Such tax would become payable only if such properties were sold without it being possible to claim rollover relief.

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

25. Called up share capital

	2020 £'000	2019 £'000
Authorised		
500,000 7% Cumulative First Preference shares of £1 each	500	500
1,250,000 11% Cumulative Preference shares of £1 each	1,250	1,250
3,000,000 6% Cumulative Second Preference shares of 10 pence each	300	300
4,000,000 Ordinary shares of 50 pence each	2,000	2,000
At 31 March 2020	4,050	4,050
Allotted, called up and fully paid		
170,732 7% Cumulative First Preference shares of £1 each	171	171
441,401 11% Cumulative Preference shares of £1 each	441	441
2,000,000 6% Cumulative Second Preference shares of 10 pence each	200	200
Total preference shares recognised as a financial liability (see note below)	812	812
2,879,298 Ordinary shares of 50 pence each	1,439	1,439
At 31 March 2020	2,251	2,251

At 1 April 2019, the Company held 2,879,298 Ordinary shares with 184,508 shares held in treasury. There has been no movement in shares during the year under review, or in the prior year. The treasury shares represent shares in the Company which are held to fulfil the requirements of any Company Save As You Earn scheme for eligible employees. The market value of these shares at 31 March 2020 was £517,000 (2019: £729,000). Dividend income from, and voting rights on, the shares held in treasury have been waived.

The 7% Cumulative First Preference shares have rights to a fixed dividend and, in the event of a winding-up, a priority to the Ordinary shares for a capital repayment. The shares do not have voting rights.

The 11% Cumulative Preference shares have rights to a fixed dividend and, in the event of a winding-up, a priority to the Ordinary shares for a capital repayment. The shares do not have voting rights.

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

Although the Articles of Association of the Company give the directors discretion to pay the preference dividend only if they consider there are adequate profits, such dividends are cumulative. For this reason, the directors consider that the preference shares have the characteristic of a financial liability rather than equity, and consequently the preference shares are included as a non-current liability. None of the preference shares have rights of conversion or rights to capital repayment.

26. Share-based payments

Year of grant	Exercise price	Exercise date	Number at 31 March 2019	Issued	Cancelled	Number at 31 March 2020
2017	£3.99	2020	106,330	–	(20,958)	85,372

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

The total expense included within operating profit relating to share-based payments for the year was £56,000 (2019: £56,000), with an associated tax credit to the Income Statement and Equity of £11,000 (2019: £11,000).

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for the year ended 31 March 2020

27. Notes to the cash flow statement

Group and Company:	2020 £'000	2019 £'000
Profit/(loss) before tax for the year	103	(428)
Adjustments for net finance expense	1,569	1,403
	1,672	975
Adjustments for:		
Depreciation of property, plant and equipment, investment properties and right-of-use assets	1,793	1,356
Impairment against property, plant and equipment and investment properties	–	945
Cash payments into the defined-benefit pension scheme	(523)	(511)
Loss on disposal of property, plant and equipment	2	6
Share-based payments	56	56
Operating cash flows before movements in working capital	3,000	2,827
Decrease/(increase) in inventories	646	(1,662)
Decrease in receivables	4,479	1,395
(Decrease)/increase in payables	(7,422)	2,500
Cash generated by operations	703	5,060
Tax paid, net of refunds	(147)	(120)
Interest paid	(1,358)	(1,181)
Net cash (absorbed)/derived from operating activities	(802)	3,759

Reconciliation of debt

Group and Company:	Bank loans £'000	Revolving credit facility £'000	Bank overdrafts, net of cash in hand £'000	Lease liabilities £'000	Preference shares £'000	Net debt £'000
At 1 April 2018	10,375	4,000	(375)	–	812	14,812
Movement	(875)	–	467	–	–	(408)
At 31 March 2019	9,500	4,000	92	–	812	14,404
Current liabilities	875	–	92	–	–	967
Non-current liabilities	8,625	4,000	–	–	812	13,437
At 31 March 2019	9,500	4,000	92	–	812	14,404
At 1 April 2019	9,500	4,000	92	2,038	812	16,442
Movement	(781)	–	3,430	(185)	–	2,464
At 31 March 2020	8,719	4,000	3,522	1,853	812	18,906
Current liabilities	875	–	3,522	491	–	4,888
Non-current liabilities	7,844	4,000	–	1,362	812	14,018
At 31 March 2020	8,719	4,000	3,522	1,853	812	18,906

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

28. Related parties

The remuneration of directors, who are key management personnel, is set out in note 5 for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual directors is provided in the Directors' Remuneration Report on pages 21 to 32.

The 2,000,000 6% Cumulative Second Preference shares have full voting rights along with the Ordinary shares, except in relation to matters which under the Listing Rules, as amended from time to time, are required to be voted on only by premium-listed securities, being the Ordinary shares. These Cumulative Second Preference shares are beneficially owned by Caffyn Family Holdings Limited ("Holdings"). Mr S G M Caffyn and Ms S J Caffyn are directors of Holdings. The whole of the issued share capital of Holdings is held by close relatives of those directors. Holdings controls directly 42.6% (2019: 42.6%) of the voting rights of Caffyns plc. The directors and shareholders of Holdings are also beneficial holders of 540,481 (2019: 585,481) Ordinary shares in Caffyns plc representing a further 11.5% (2019: 12.5%) of the voting rights. It is therefore considered that the Caffyn family is the ultimate controlling party. As required under the Stock Exchange Listing Rules, the Company entered into a Relationship Agreement with Holdings on 6 November 2014 whereby Holdings undertakes to the Company that it shall exercise its voting rights and shall exercise all its powers to ensure, so far as it is properly able to do so, that its associates shall exercise their respective voting rights and exercise all their respective powers to ensure, to the extent that they are able by the exercise of such rights to procure, that:

a. transactions and arrangements between any member of the Company and Holdings (and/or any of its associates) will be conducted at arm's length and on normal commercial terms;
b. neither holdings nor any of its associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and
c. neither Holdings nor any of its associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

Directors of the Company and their immediate relatives control 16.4% (2019: 15.7%) of the issued Ordinary share capital of the Company. Dividends of £25,188 (2019: £24,388) were paid to directors in the year.

Caffyns Pension Scheme

Details of contributions are disclosed in note 23.

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

	Fair value	
	2020 £'000	2019 £'000
Shares held:		
125,570 (2019: 125,570) Ordinary shares of 50 pence each	**352**	496
12,862 (2019: 12,862) 11% Cumulative Preference shares of £1 each	**20**	20
At 31 March 2020	**372**	516

During the year to 31 March 2020, the Company paid management fees of £249,000 (2019: £290,000) on behalf of the Caffyns Pension Scheme. These costs comprised the Pension Protection Fund levy, actuarial advisory fees and external administration fees.

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for the year ended 31 March 2020

29. Operating leases

The Group as a lessee

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

Group and Company	2020 Land and buildings £'000	2020 Other £'000	2019 Land and buildings £'000	2019 Other £'000
Within one year	83	–	494	–
In two to five years	–	–	1,497	–
Beyond five year	–	–	263	–
Future minimum lease payments	83	–	2,254	–

The total minimum lease payments for land and buildings are until the break point in the lease. All rentals are fixed until either the termination of the lease, or in the case of land and buildings, the next break point.

The Company implemented IFRS 16 Leases with effect from 1 April 2019. As a result, significant leases with terms in excess of twleve months are no longer treated as operating leases but have been capitalised in the current period as either right-of-use assets or interest in lease receivables.

The Group as lessor

The Company's gross property rental income earned during the year from sub-letting a leased property and the direct lease of three (2019: three) investment properties owned by the Group was £893,000 (2019: £708,000). No contingent rents were recognised in income (2019: £nil).

At 31 March 2020 there were contracts for land and buildings with tenants for the following lease rentals receivable:

Group and Company	2020 £'000	2019 £'000
Within one year	701	902
In two to five years	1,559	1,602
Beyond five years	1,585	1,966
At 31 March 2020	3,845	4,486

30. Capital commitments

Neither the Group nor the Company had any capital commitments at 31 March 2020 (2019: £nil).

31. Operating financial commitment

The Group and the Company had contingent liabilities at 31 March 2020 of £1.7 million (2019: £0.8 million).

32. Legal contingent liability

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

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

Notwithstanding the above, claims on behalf of multiple claimants, arising out of or in relation to their purchase or acquisition on finance of a Volkswagen Group vehicle affected by the NOx issue, have been brought against a number of Volkswagen entities and dealers, including Caffyns. Caffyns has been named as a Defendant on fourteen claim forms alleging fraudulent misrepresentation, breach of contract, breach of statutory duty, breach of the Consumer Credit Act 1974 and a breach of the Consumer Protection from Unfair Trading Regulations 2008. In total, there are 313 claims being jointly brought against Caffyns.

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

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

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

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

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

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

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

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for the year ended 31 March 2020

33. Critical accounting judgements and estimates when applying the Company's accounting policies

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Certain critical accounting estimates in applying the Company's accounting policies are listed below.

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

Impairment

The carrying value of property, plant and equipment and goodwill are tested annually for impairment as described in notes 11, 12, 13 and 15. 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 property assets (2019: impairment charges of £1.0 million) (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. Shadow ACT has no effect on the corporation tax payable itself but any surplus ACT on dividends must be fully absorbed before surplus unrelieved ACT can be utilised. In prior years, the Company has partially impaired the value of the ACT by £301,000 in order to avoid recognising an overall deferred tax asset. At 31 March 2020, the carrying value of surplus ACT is £835,000 (2019: £835,000) and shadow ACT is £845,000 (2019: £694,000). Uncertainty arises due to the estimation of future levels of profitability, levels of dividends payable and the reversal of deferred tax liabilities in respect of accelerated capital allowances and on unrealised capital gains. For example, a reduction in the Company's profitability could result in a delay in the utilisation of surplus unrelieved ACT. However, based on the Company's current projections, the directors have a reasonable expectation that the surplus ACT will be fully relieved against future corporation tax liabilities by 31 March 2028.

Support arrangements

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

During the prior year, the Company received a contribution of £255,000 from a brand partner towards the cost of developing its Angmering dealership. The contribution agreement was not specific as to whether the amount contributed was in respect of the capital expenditure incurred by the Company, or in respect of other operating activities (such as marketing) 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 prior year ended 31 March 2019 and an increase in net assets of the same amount as at 31 March 2019, with the remaining £159,000 standing to be recognised over the remaining contractual period as follows: year ended 31 March 2020: £127,500, year ending 31 March 2021: £31,500.

Five Year Review

(adjusted for discounted operations)

	2016 £'000	2017 £'000	Restated 2018 £'000	2019 £'000	**2020 £'000**
Income Statement					
Revenue	186,401	212,581	215,868	209,246	**197,854**
Underlying operating profit	2,544	2,981	2,325	2,626	**1,633**
Finance expense	(1,079)	(930)	(935)	(1,181)	**(1,382)**
Underlying profit before tax	1,465	2,051	1,390	1,445	**251**
Non-underlying items	(222)	(392)	(225)	(1,873)	**(148)**
Profit before tax from discontinued operations	1,392	4,623	–	–	**–**
Profit/(loss) before tax	2,635	6,282	1,165	(428)	**103**
Profit/(loss) after tax	2,487	5,123	1,030	(566)	**(252)**
Basic earnings/(deficit) per ordinary share	90.1p	186.3p	38.2p	(21.0)p	**(9.4)p**
Underlying earnings/(deficit) per ordinary share	48.8p	58.0p	45.6p	35.3p	**(4.9)p**
Dividend per ordinary share payable in respect of the year	21.75p	22.50p	22.50p	22.50p	**7.50p**

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

	2016 £'000	2017 £'000	Restated 2018 £'000	2019 £'000	**2020 £'000**
As at year-end					
Shareholders' funds	27,180	28,326	27,913	27,975	**26,380**
Property, plant and equipment*	39,385	42,609	46,957	47,394	**46,835**
Bank overdrafts and loans (net)	11,156	8,554	14,000	13,592	**16,241**
Bank overdrafts and loans/shareholders' funds (gearing)	40%	30%	50%	49%	**62%**
Retirement benefit liability	4,980	8,554	9,497	8,576	**9,434**

* Represents property, plant and equipment and investment properties

Our dealerships

AUDI	
BRIGHTON:	200 Dyke Road, Brighton, BN1 5AT (01273 553061)
EASTBOURNE:	Edward Road, Eastbourne, BN23 8AS (01323 525700)
WORTHING:	Roundstone Lane, Worthing, BN16 4BD (01903 231111)
SEAT	
TUNBRIDGE WELLS:	North Farm Industrial Estate, Tunbridge Wells, TN2 3EL (01892 515700)
SKODA	
ASHFORD:	The Boulevard, Ashford, TN24 0GA (01233 504600)
TUNBRIDGE WELLS:	North Farm Industrial Estate, Tunbridge Wells, TN2 3EL (01892 515700)
VAUXHALL	
ASHFORD:	Monument Way, Orbital Park, Ashford, TN24 0HB (01233 504604)
VOLKSWAGEN	
BRIGHTON:	Victoria Road, Portslade, BN41 1YD (01273 425600)
EASTBOURNE:	Lottbridge Drove, Eastbourne, BN23 6PW (01323 647141)
HAYWARDS HEATH:	Market Place, Haywards Heath, RH16 1DN (01444 451511)
WORTHING:	Nightingale Avenue, Worthing, BN12 6FH (01903 837878)
VOLVO	
EASTBOURNE:	Lottbridge Drove, Eastbourne, BN23 6PJ (01323 418300)
WORTHING:	Palatine Road, Worthing, BN12 6JH (01903 507124)
MOTORSTORE	
ASHFORD:	Monument Way, Orbital Park, Ashford, TN24 0HB (01233 504624)
HEAD OFFICE	
EASTBOURNE:	Meads Road, Eastbourne, BN20 7DR (01323 730201)

Consultancy, design and production by:
jonesandpalmer.co.uk

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