Summary

	6 months to 30 September 2019 £'000	6 months to 30 September 2018 £'000
Revenue (restated – see Note 1 below)	**98,978**	106,024
Underlying EBITDA (see Note 2 below)	**1,719**	2,367
Underlying profit before tax (see Note 2 below)	**165**	1,185
Profit before tax	**56**	704
	Pence	Pence
Underlying basic earnings per share	**4.3**	34.3
Basic earnings per share	**1.0**	17.6
Interim dividend per ordinary share	**7.5**	7.5

Financial and operational review

- Underlying profit before tax of £0.17 million (2018: £1.19 million)
- Profit before tax of £0.06 million (2018: £0.70 million)
- Like-for-like new car unit deliveries down by 14.5%
- Like-for-like used car unit sales down by 2.3%
- Aftersales revenues up by 2.1%
- Adjusted basic earnings per share of 4.3 pence (2018: 34.3 pence)
- Basic earnings per share of 1.0 pence (2018: 17.6 pence)
- Net bank borrowings of £13.0 million (2018: £12.2 million)
- Interim dividend maintained at 7.5 pence

Simon Caffyn, Chief Executive, commented:

"Whilst disappointing, the results should be read against a difficult economic and political background. This was compounded by supply problems for new cars. These supply issues have however improved, and we remain cautiously optimistic about the future outlook."

Enquiries:

Caffyns plc	Simon Caffyn, Chief Executive Mike Warren, Finance Director	Tel:	01323 730201
Headland	Francesca Tuckett	Tel:	020 3805 4822

Note 1: Turnover and cost of sales for the comparative period have been restated in relation to commissions received from finance companies, which previously were incorrectly treated as a reduction to Cost of sales. These commissions were amended to be reported as revenue. The reclassification had no impact on Gross profit.
Note 2: Underlying results exclude items that have non-trading attributes due to their size, nature or incidence. Non-underlying items for the period totalled £109,000 (2018: £481,000) and are detailed in Note 4 to these condensed consolidated financial statements. Underlying EBITDA of £1,719,000 (2018: £2,367,000) represents Operating profit before non-underlying items of £850,000 (2018: £1,730,000) and Depreciation and amortisation of £869,000 (2018: £637,000).
Note 3: The implementation of IFRS 16 Leases decreased profits before tax by £6,000 but increased underlying EBITDA by £131,000 in comparison to the previous accounting treatment.

INTERIM MANAGEMENT REPORT

Summary

The results for the half-year ended 30 September 2019 ("the period") are disappointing with a significantly reduced underlying profit before tax of £0.17 million (2018: £1.19 million). The second stage of the implementation of the harmonised emissions testing regime, Real-Driving Emissions ("RDE") adversely impacted new car deliveries for the September bi-annual registration plate change, on which the period was very reliant. As shareholders will recall, the implementation of the first stage of the regime in September 2018 adversely impacted the prior year result. Vehicle supply from many of our manufacturer partners was significantly constrained affecting the majority of our dealerships. Customer demand in the period was also lower as a result of the weakened economic backdrop. With supply and demand both constrained, revenue for the period fell by 7% to £99.0 million (2018 restated: £106.0 million). Adjusted basic earnings per share were 4.3 pence (2018: 34.3 pence).

The Company's defined-benefit pension scheme deficit, as assessed by the independent actuary, showed an increase of £1.0 million from the last financial year-end at 31 March 2019 to £9.5 million at 30 September 2019. Whilst the Scheme's investments performed strongly, continued reductions in the discount rate increased the present value of the Scheme's pension liabilities, offsetting this investment performance and resulting in a widening of the deficit.

The Company continues to own all but one of the freeholds of the properties from which it operates, and this provides the dual strengths of a strong asset base and minimal exposure to rent reviews which is reassuring in these uncertain times.

Profit before tax for the period was £0.06 million (2018: £0.70 million) with basic earnings per share of 1.0 pence (2018: 17.6 pence).

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

Operating review

New and used cars

Our new car deliveries in the period fell by 14.5% which was a greater fall than the 6.1% reduction recorded in the retail and small business market segment in which we primarily operate. Nationally, new car registrations by two of our manufacturers underperformed the market and across our remaining four marques our deliveries were broadly in line with the market. The introduction of the second phase of the emissions-testing regime, Real-Driving Emissions, on 1 September 2019 was also a major factor in the reduction in new car deliveries. Used cars unit sales for the period in our franchised businesses were up 2.6% on the comparative period but a weak performance from our Motorstore operation left overall used car unit sales down by 2.3% on the previous year. However, over a five-year period, the Company has recorded 36% growth in the number of used cars sold by its current businesses and we continue to see this area as providing opportunities for further growth.

Aftersales

Significant reductions in new car registrations in both the period and the comparative period acted to reduce the number of one to three-year old cars in circulation. Therefore, it was encouraging to see like-for-like aftersales revenues continue to grow, by 2% in the period, despite reductions in levels of new car preparation and warranty work. We continue to realise improvements to our customer retention processes.

Operations

Our Volvo business in Eastbourne traded very profitably in the period and was ahead of our expectations. The business continues to reap the benefits of an excellent model range of cars, which continue to be positively received by customers.

The financial performance of our Volkswagen division worsened markedly as new car supply was significantly constrained for most of the period. This had a significant, detrimental impact on the results for the key bi-annual registration plate change month of September and left the division in a loss-making position for the period. However, given the strength of the brand, the excellent model range and the imminent arrival of several exciting new products, we are confident that improvements in its future trading performance will be achievable.

Our Audi businesses also experienced a very difficult six months with the same issues as for our Volkswagen division and was loss-making for the period. We are confident that improvements in its future trading performance will be achievable.

Our SEAT business continued to perform strongly and countered a weaker performance from our Skoda businesses which, like Volkswagen and Audi, was significantly affected by new car supply issues.

Our Vauxhall business in Ashford experienced an improved trading performance in the period as customers' confidence in the brand has grown following its 2017 takeover in the UK by the PSA Group.

Our Motorstore used car business in Ashford had a very disappointing six months and was loss-making for the period. Changes have been made to the management of the operation and to its stock profile and operational processes. We are confident that the second six months of this financial year will see the business return to profitable trading. Longer term, the concept continues to be very well received by our customers who are particularly reassured by the Caffyns brand.

Property

Capital expenditure in the period was £0.4 million (2018: £2.5 million).

We continue to develop plans to upgrade our Volvo site in Eastbourne which would allow for an expansion of our showroom facility to better accommodate Volvo's widened model range.

We operate primarily from freehold sites and our property portfolio provides additional stability to our business model. Annually, we obtain an independent assessment of the values of our freehold properties against their carrying value in our accounts and had an unrecognised surplus to carrying value of £11.2 million at 31 March 2019, our last financial year-end.

The Company implemented the IFRS 16 Leases accounting standard with effect from the start of its financial year on 1 April 2019. As a result, two leases have been capitalised which resulted in an increase in the Company's stated assets of £2.0 million.

As part of the sale of the Land Rover business in April 2016, our freehold premises in Lewes remain leased to the purchaser for a fixed period to October 2020. The Board continues to evaluate future opportunities for the site.

Pensions

The Company's defined-benefit pension scheme started the period with an independently assessed net deficit of £8.6 million. The Board has little control over the key assumptions in the valuation calculations as required by accounting standards and was disappointed to note a further reduction in the level of the discount rate in the period which resulted in a £8.8 million increase in the assessed value of the gross liabilities of the Scheme. In late 2017, the Company worked with the trustees to appoint a fiduciary manager to the Scheme with the goal of both improving investment performance and reducing the risk profile of the assets. In the period, the Scheme's gross assets performed well and increased in value by £7.8 million. Overall, the Scheme net deficit at the end of the period was £9.5 million, a deterioration of £1.0 million. Net of deferred tax, the net deficit was £7.9 million at 30 September 2019 (2018: £5.7 million) and £7.1 million at 31 March 2019.

The pension cost under IAS 19 is recognised in the Condensed Consolidated Statement of Financial Performance and continues to be charged as a non-underlying cost, amounting to £109,000 in the period (2018: £127,000).

The Company has agreed a recovery plan with the Scheme's trustees under which the Company makes cash payments into the Scheme. For the period to 30 September 2019 these amounted to £0.26 million. These payments will increase in future financial years by a minimum of 2.25% per annum.

Bank facilities

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

Bank borrowings, net of cash balances, at 30 September 2019 were £13.0 million (2018: £12.2 million), down from £13.6 million at 31 March 2019. As a proportion of shareholders' funds, bank borrowings, net of cash balances were 49% (2018: 42%). The increase in gearing over the previous twelve months was primarily the result of the widening in the net deficit of the Company's defined-benefit pension scheme.

Taxation

The tax charge for the period has been based on an estimation of the effective tax rate on profits for the full financial year of 50.0% (2018: 28.7%). The current year effective tax rate is higher than the standard rate of corporation tax in force for the year of 19% due to the effect of items disallowable for tax purposes. A recovery in profit levels to historical levels would result in the effective rate falling back towards the headline corporation tax rate.

People

I am very grateful for the dedication and professionalism shown by our employees. The marketplace in which we have operated has been very challenging, particularly for new car sales following the implementation of the second phase of the emissions testing regime, and their hard work and professional application is much appreciated by the Board.

Dividend

Despite the disappointing financial performance in the period, the Board remains confident in the future prospects of the Company and has therefore declared an unchanged interim dividend of 7.5 pence per ordinary share. This will be paid on 6 January 2020 to shareholders on the register at close of business on 6 December 2019. The ordinary shares will be marked ex-dividend on 5 December 2019.

Strategy

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

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

Current trading and outlook

Despite a weak marketplace for the bi-annual registration plate change in September, we are cautiously optimistic about the future outlook. However, our full year outcome will remain heavily dependent on the success of the next bi-annual registration plate change in March 2020 as well as on the wider challenges to the UK economy including uncertainty surrounding the Brexit process.

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

Simon G M Caffyn

Chief Executive

21 November 2019

Condensed Consolidated Statement of Financial Performance

for the half year ended 30 September 2019

	Note	**Unaudited Half year to 30 September 2019 Total £'000**	Restated* Unaudited Half year to 30 September 2018 Total £'000	Audited Year ended 31 March 2019 Total £'000
Revenue		**98,978**	106,024	209,246
Cost of sales		**(86,515)**	(92,885)	(183,317)
Gross profit		**12,463**	13,139	25,929
Operating expenses		**(11,974)**	(12,318)	(25,756)
Operating profit before other income		**489**	821	173
Other income (net)	3	**347**	542	802
Operating profit		**836**	1,363	975
Operating profit before non-underlying items		**850**	1,730	2,626
Non-underlying items within operating profit	4	**(14)**	(367)	(1,651)
Operating profit		**836**	1,363	975
Finance expense	5	**(685)**	(545)	(1,181)
Non-underlying net finance expense on pension scheme	4	**(95)**	(114)	(222)
Net finance expense		**(780)**	(659)	(1,403)
Profit/(loss) before taxation		**56**	704	(428)
Profit before tax and non-underlying items		**165**	1,185	1,445
Non-underlying items within operating profit	4	**(14)**	(367)	(1,651)
Non-underlying net finance expense on pension scheme	4	**(95)**	(114)	(222)
Profit/(loss) before taxation		**56**	704	(428)
Taxation	6	**(28)**	(231)	(138)
Profit/(loss) for the period		**28**	473	(566)
Earnings/(deficit) per share				
Basic	7	**1.0p**	17.6p	(21.0)p
Diluted	7	**1.0p**	17.5p	(21.0)p
Non-GAAP measure				
Underlying basic earnings per share	7	**4.3p**	34.3p	35.3p
Underlying diluted earnings per share	7	**4.3p**	34.2p	35.3p

* The Revenue and Cost of sales for the half year ended 30 September 2018 has been restated by an increase of £1,005,000. This restatement arose as a result of commissions received from finance companies, which previously were incorrectly treated as a reduction to Cost of sales. These commissions were amended to be reported as revenue. The reclassification had no impact on Gross profit. The restatement was identified and addressed in the March 2019 annual report.

Condensed Consolidated Statement of Comprehensive Income

for the half year ended 30 September 2019

	Note	**Unaudited Half year to 30 September 2019 £'000**	Unaudited Half year to 30 September 2018 £'000	Audited Year to 31 March 2019 £'000
Profit/(loss) for the period		**28**	473	(566)
Items that will never be reclassified to profit and loss:				
Remeasurement of net pension scheme obligation	**9**	**(1,111)**	2,488	1,510
Deferred tax on remeasurement of pension scheme obligation		**189**	(444)	(257)
Other comprehensive (expense)/income, net of tax		**(922)**	2,044	1,253
Total comprehensive (expense)/income for the period		**(894)**	2,517	687

Condensed Consolidated Statement of Financial Position

at 30 September 2019

	Note	**Unaudited 30 September 2019 £'000**	Restated* Unaudited 30 September 2018 £'000	Audited 31 March 2019 £'000
Non-current assets				
Property, plant and equipment		**38,908**	40,063	39,225
Investment property		**8,110**	8,404	8,169
Right-of-use assets		**828**	-	-
Net investment in lease		**819**	-	-
Goodwill		**286**	286	286
Total non-current assets		**48,951**	48,753	47,680
Current assets				
Inventories		**31,862**	29,543	34,468
Trade and other receivables		**5,936**	4,630	8,796
Net investment in lease		**180**	-	-
Cash and cash equivalents		**1,082**	2,250	3,908
Total current assets		**39,060**	36,423	47,172
Total assets		**88,011**	85,176	94,852
Current liabilities				
Interest-bearing overdrafts, loans and borrowings		**1,875**	1,375	4,875
Trade and other payables		**35,034**	32,530	39,886
Lease liabilities		**410**	-	-
Current tax payable		**33**	184	103
Total current liabilities		**37,352**	34,089	44,864
Net current assets		**1,708**	2,334	2,308
Non-current liabilities				
Interest-bearing loans and borrowings		**12,187**	13,062	12,625
Lease liabilities		**1,423**	-	-
Preference shares		**812**	812	812
Deferred tax liability		**-**	350	-
Pension scheme obligation	**9**	**9,532**	6,884	8,576
Total non-current liabilities		**23,954**	21,108	22,013
Total liabilities		**61,306**	55,197	66,877
Net assets		**26,705**	29,979	27,975
Shareholders' equity				
Ordinary share capital		**1,439**	1,439	1,439
Share premium		**272**	272	272
Capital redemption reserve		**707**	707	707
Non-distributable reserve		**1,724**	1,724	1,724
Retained earnings		**22,563**	25,837	23,833
Total equity		**26,705**	29,979	27,975

* The balance sheet for the comparative period has been restated following the identification of errors in both its calculation and methodology of the potential deferred tax liability on held-over gains from property disposals and from accelerated capital allowances in prior accounting periods. These errors had resulted in an overstatement of its deferred tax liability by £790,000 as at 1 April 2017 and a prior year adjustment to the previously stated values has been made in these condensed consolidated financial statements to correct this error. The error impacted the deferred tax liability balance at 1 April 2017 and 31 March 2018 by the same amount, thus there was no impact on the income statement for the comparative period ended 30 September 2018. These errors were corrected in the financial statements for the year ended 31 March 2019.

Condensed Consolidated Statement of Changes in Equity

for the half year ended 30 September 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2019	1,439	272	707	1,724	23,833	27,975
Total comprehensive income/(expense)						
Profit for the period	-	-	-	-	28	28
Other comprehensive expense	-	-	-	-	(922)	(922)
Total comprehensive expense for the period	-	-	-	-	(894)	(894)
Transactions with owners:						
Dividends	-	-	-	-	(404)	(404)
Share-based payment	-	-	-	-	28	28
At 30 September 2019 (unaudited)	**1,439**	**272**	**707**	**1,724**	**22,563**	**26,705**

for the half year ended 30 September 2018

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2018, as previously stated	1,439	272	707	1,724	22,981	27,123
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						
Profit for the period	-	-	-	-	473	473
Other comprehensive income	-	-	-	-	2,044	2,044
Total comprehensive income for the period	-	-	-	-	2,517	2,517
Dividends	-	-	-	-	(404)	(404)
Share-based payment	-	-	-	-	28	28
At 30 September 2018 (unaudited)	**1,439**	**272**	**707**	**1,724**	**25,837**	**29,979**

The initial application of IFRS15 Revenue from Contracts with Customers resulted in an adjustment to the opening retained earnings of a reduction of £75,000.

for the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Non-distributable reserve £'000	Retained earnings £'000	Total equity £'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/(expense)						
Loss for the period	-	-	-	-	(566)	(566)
Other comprehensive income	-	-	-	-	1,253	1,253
Total comprehensive income for the period	-	-	-	-	687	687
Dividends	-	-	-	-	(606)	(606)
Share-based payment	-	-	-	-	56	56
At 31 March 2019 (audited)	**1,439**	**272**	**707**	**1,724**	**23,833**	**27,975**

Condensed Consolidated Cash Flow Statement

for the half year ended 30 September 2019

	Unaudited Half year to 30 September 2019 £'000	Unaudited Half year to 30 September 2018 £'000	Audited Year to 31 March 2019 £'000
Cash flows from operating activities			
Profit/(loss) before taxation from continuing operations	**56**	704	(428)
Adjustments for:			
Net finance expense and pension scheme service cost	**793**	673	1,403
Depreciation and amortisation	**869**	637	1,356
Property impairment charge	**-**	350	945
Contribution to pension scheme obligation	**(263)**	(253)	(511)
Loss on disposal of property, plant and equipment	**1**	3	6
Share-based payments	**28**	28	56
Decrease/(increase) in inventories	**2,951**	1,104	(1,662)
Decrease in receivables	**2,844**	5,562	1,395
(Decrease)/increase in payables	**(4,996)**	(3,577)	2,500
Cash generated from operations	**2,283**	5,231	5,060
Tax (paid)/recovered	**(81)**	32	(120)
Interest paid	**(685)**	(546)	(1,181)
Net cash generated from operating activities	**1,517**	4,717	3,759
Investing activities			
Proceeds generated on disposal of property, plant and equipment	**-**	3	10
Purchases of property, plant and equipment	**(376)**	(2,503)	(2,755)
Net cash used in investing activities	**(376)**	(2,500)	(2,745)
Financing activities			
Secured loans repaid	**(438)**	(438)	(875)
Repayment of lease liabilities	**(125)**	-	-
Dividends paid to shareholders	**(404)**	(404)	(606)
Net cash used in financing activities	**(967)**	(842)	(1,481)
Net increase/(decrease) in cash and cash equivalents	**174**	1,375	(467)
Cash and cash equivalents at beginning of period	**(92)**	375	375
Cash and cash equivalents at end of period	**82**	1,750	(92)
Cash and cash equivalents	**1,082**	2,250	3,908
Bank overdraft	**(1,000)**	(500)	(4,000)
Net cash and cash equivalents	**82**	1,750	(92)

1. GENERAL INFORMATION

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

These condensed consolidated financial statements for the half year to 30 September 2019 and similarly for the half year to 30 September 2018 are unaudited. They do not include all the information required for full annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended 31 March 2019.

The comparative financial information for the year ended 31 March 2019 in these condensed consolidated financial statements does not constitute statutory accounts for that year. The statutory accounts for 31 March 2019 have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

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

These consolidated interim financial statements were approved by the directors on 21 November 2019.

2. ACCOUNTING POLICIES

The annual financial statements of Caffyns plc are prepared in accordance with IFRSs as adopted by the European Union. The set of condensed consolidated financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union. As required by the disclosure guidance and transparency rules of the Financial Conduct Authority, this set of condensed consolidated financial statements has been prepared in accordance with the accounting policies set out in the Annual Report for the year ended 31 March 2019 except as noted below.

A new standard, IFRS16 Leasing, 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 IAS 17 and three related Interpretations, has completed the IASB's long-running project to overhaul lease accounting and requires leases to be recorded on the Statement of Financial Position in the form of a right-of-use asset, representing the Company's right to use the underlying asset, and a lease liability, representing its obligation to make lease payments.

Under the previous accounting policy, the Company previously classified leases as either an operating lease or a finance lease depending upon whether it was deemed that substantially all of 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 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 is 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 whilst 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, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 April 2019. Right-of-use assets were measured as an amount equal to the lease liability.
The Company has applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:
- to apply the exemption not to recognise right-of-use assets and liabilities with less than 12 months of the lease term remaining at 1 April 2019;
- to exclude initial direct costs from measuring the right-of-use asset at date of initial application;
- to use hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Under the previous accounting treatment, the lease rentals paid for the two properties highlighted above were charged against underlying profits and no asset or liability was recognised in the Statement of Financial Position. The implementation of the Standard increased the Company's assets and liabilities by £2,038,000 and reduced pre-tax profits by £6,000. During the period the Company recognised £118,000 of depreciation charges, an interest expense of £13,000 and made payments of £218,000 in respect of its lease liabilities. As a Lessor, the Company received payments of £92,000 in respect of the investment in lease receivable.

Segmental reporting

Based upon the management information reported to the Group's chief operating decision maker, the Chief Executive, in the opinion of the directors, the Group only has one reportable segment. There are no major customers amounting to 10% or more of the Group's revenue. All revenue and non-current assets derive from, or are based in, the United Kingdom.

Basis of preparation: Going concern

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

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

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

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For those reasons, they continue to adopt the going concern basis in preparing these condensed consolidated financial statements.

Non-underlying items

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

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

All other activities are treated as underlying.

3. OTHER INCOME (NET)

	Half year to 30 September 2019 £'000	Half year to 30 September 2018 £'000	Year to 31 March 2019 £'000
Rent receivable	**348**	260	523
Compensation claim received	**-**	285	285
Loss on disposal of tangible fixed assets	**(1)**	(3)	(6)
Total finance costs	**347**	542	802

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

4. NON-UNDERLYING ITEMS

	Half year to 30 September 2019 £'000	Half year to 30 September 2018 £'000	Year to 31 March 2019 £'000
Other income:			
Net loss on disposal of property, plant and equipment	**(1)**	(3)	(6)
Within operating expenses:			
Service cost on pension scheme	**(13)**	(14)	(27)
Property impairment charge	**-**	(350)	(945)
Equalisation of Guaranteed Minimum Pensions	**-**	-	(851)
VAT claim recovery, net of costs	**-**	-	315
VAT compliance costs	**-**	-	(164)
Liquidation distribution received	**-**	-	27
	(13)	(364)	(1,645)
Non-underlying items within operating profit	**(14)**	(367)	(1,651)
Net finance expense on pension scheme	**(95)**	(114)	(222)
Total non-underlying items within profit before taxation	**(109)**	(481)	(1,873)

In the comparative prior period to 30 September 2018 the Company impaired the carrying value of one freehold property by a total of £350,000. In the second half of the prior year, a further impairment charge to that property of £50,000 was recognised and an impairment charge of £545,000 was recognised against the carrying value of a second freehold property. All impairment charges were made following advice received from its independent valuer, CBRE Limited.

Also in the prior year, a legal precedent was set regarding the issue of equalisation of Guaranteed Minimum Pensions relating to the members of the Company's defined-benefit pension scheme. Accordingly, a charge of £851,000 was taken against prior year profits being the best estimate of the cost of equalising pension entitlements between men and women.

Additionally in the prior year, the Company recovered a sum of £334,000 in respect of a VAT claim submitted to HMRC for VAT incorrectly accounted for on dealer contributions towards vehicle sales between 2012 and 2017. Net of costs of recovery, a credit of £315,000 was recognised to profits. The Company also recognised a further charge of £164,000 against a historic VAT inspection from HM Revenue & Customs which had identified certain items of non-compliance with relevant legislation.

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

5. FINANCE EXPENSE

	Half year to 30 September 2019 £'000	Half year to 30 September 2018 £'000	Year to 31 March 2019 £'000
Interest payable on bank borrowings	**224**	158	356
Vehicle stocking plan interest	**360**	304	648
Interest on lease liabilities	**13**	-	-
Financing costs amortised	**52**	47	105
Preference dividends	**36**	36	72
Total finance costs	**685**	545	1,181

Interest payable on bank borrowings for the prior period is after capitalising interest on additions to freehold properties of £55,000 at a rate of 2.6%. No interest was capitalised in the current period under review.

The interest charged on lease liabilities arose from the implementation of IFRS16 Leases with effect from 1 April 2019.

6. TAXATION

	Half year to 30 September 2019 £'000	Half year to 30 September 2018 £'000	Year to 31 March 2019 £'000
Current UK corporation tax			
Charge for the period	**(12)**	(203)	(261)
Adjustments recognised in the period for current tax of prior periods	**-**	(10)	(22)
Total current tax charge	**(12)**	(213)	(283)
Deferred tax			
Origination and reversal of timing differences	**(16)**	(34)	21
Adjustments recognised in the period for deferred tax of prior periods	**-**	16	124
Total deferred tax charge	**(16)**	(18)	145
Total tax charged in the Statement of Financial Performance	**(28)**	(231)	(138)

The tax charge arises as follows:

	Half year to 30 September 2019 £'000	Half year to 30 September 2018 £'000	Year to 31 March 2019 £'000
On normal trading	**(48)**	(259)	(494)
Non-underlying items	**20**	28	356
Total tax charge	**(28)**	(231)	(138)

Taxation of trading items for the half year has been provided at the current rate of taxation of 50% (2018: 29%) expected to apply to the full year. This effective rate is higher than the standard rate of corporation tax in force of 19% due to the effect of non-deductible expenses, non-qualifying depreciation and the impairment of an advanced corporation tax asset.

7. EARNINGS PER SHARE

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

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

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

	Half year to 30 September 2019 £'000	Half year to 30 September 2018 £'000	Year to 31 March 2019 £'000
Basic			
Profit/(loss) after tax for the period	**28**	473	(566)
Basic earnings/(deficit) per share	**1.0p**	17.6p	(21.0)p
Diluted earnings/(deficit) per share	**1.0p**	17.5p	(21.0)p
Adjusted			
Profit/(loss) before tax	**56**	704	(428)
Adjustment: Non-underlying items (note 4)	**109**	481	1,873
Underlying profit for the period	**165**	1,185	1,445
Taxation on normal trading (note 6)	**(48)**	(259)	(493)
Underlying earnings	**117**	926	952
Underlying basic earnings per share	**4.3p**	34.3p	35.3p
Diluted earnings per share	**4.3p**	34.2p	35.3p

The number of fully paid ordinary shares in issue at the period end was 2,879,298 (2018: 2,879,298). Excluding the shares held for treasury, the weighted average shares in issue for the purposes of the earnings per share calculation were 2,694,790 (2018: 2,694,790). The shares granted under the Company's SAYE scheme are dilutive. The number of dilutive shares under option at fair value was 2,853 (2018: 7,279) giving a total diluted weighted average number of shares of 2,697,643 (2018: 2,702,069).

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

8. DIVIDENDS

Ordinary shares of 50p each

The interim dividend proposed at the rate of 7.5 pence per share (2018: 7.5 pence) is payable on 7 January 2020 to shareholders on the register at the close of business on 7 December 2019. The shares will be marked ex-dividend on 6 December 2019.

Preference shares

Preference dividends were paid in October 2019. The next preference dividends are payable in April 2020. The cost of the preference dividends has been included within finance costs.

9. PENSIONS

The pension scheme deficit reflects a defined benefit obligation that has been updated to reflect its valuation as at 30 September 2019. This has been calculated by a qualified actuary using a consistent valuation method to that which was adopted in the audited financial statements for the year ended 31 March 2019 and in the period to 30 September 2018, and which complies with the accounting requirements of IAS 19 (revised).

The net liability for defined benefit obligations has increased from £8,576,000 at 31 March 2019 to £9,532,000 at 30 September 2019. The increase of £956,000 comprises the net charge to the Condensed Consolidated Statement of Financial Performance of £108,000, a net remeasurement loss debited to the Condensed Consolidated Statement of Comprehensive Income of £1,111,000 and contributions of £263,000. Asset values increased significantly in the period, by £7,837,000 despite divestments to pay pension transfers and benefits in the period of £2,077,000. Pension liabilities increased by £8,794,000 as a result of a reduction in the discount rate from 2.25% at 31 March 2019 to 1.70% at 30 September 2019, despite transfers and pensions that were paid in the period.

10. RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The Board believes these risks and uncertainties to be consistent with those disclosed in our latest Annual Report, including general economic factors, their impact on the Group's defined benefit pension scheme, liquidity and financing, the Group's dependency on its manufacturers' and their stability, used car prices and regulatory compliance. Following the UK's decision to leave the EU in 2016, a degree of uncertainty in the UK economy remains and we believe that the main risks to arise from this relate to consumer confidence and the potential impact that Sterling/Euro exchange rates may have on vehicle prices.

11. CONTINGENT LIABILITIES

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

Technical measures have been approved by the German type approval authority, the Kraftfahrt-Bundesamt (the "*KBA*") in respect of Volkswagen and Audi branded vehicles, by the UK type approval authority, the Vehicle Certification Agency (the "*VCA*") in respect of Skoda branded vehicles, and by the Ministerio de Industria, Energía y Turismo (the "*MDI*") in respect of SEAT branded vehicles. The KBA and VCA have confirmed for all affected vehicles that the implementation of all technical measures does not adversely impact fuel consumption figures, CO2 emissions figures, engine output, maximum torque and noise emissions. The MDI is also content that the technical measures be applied to those SEAT vehicles for which they are the relevant approval authority.

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

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

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

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

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

(ii) "Where a vehicle's engine control unit is capable of identifying the New European Driving Cycle test and operates in a different mode during the test by altering the rate of exhaust gas recirculation to reduce NOx emissions, does

the vehicle contain a “defeat device” within the meaning of Article 3(10) of Regulation 715/2007/EC?”

The preliminary issues trial is scheduled to take place 2 December – 13 December 2019.

At present, the litigation is in its early stages, and therefore at this stage it is too early to assess reliably the merit of any such claim and so any future outflow of resources is not considered probable. Accordingly, no provision for liability has been made in these financial statements.

Notwithstanding the early stage of the litigation, Volkswagen 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.

12. RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

a) these condensed consolidated financial statements have been prepared in accordance with IAS34 ‘Interim Financial Reporting’;

b) these condensed consolidated financial statements include a fair review of the information required by DTR 4.2.7R of the disclosure guidance and transparency rules (indication of important events during the first six months and their impact on the set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year); and

c) the Half Year Report includes a fair review of the information required by DTR 4.2.8R of the disclosure and guidance transparency rules (disclosure of related parties’ transactions and changes therein).

By order of the Board

S G M Caffyn
Chief Executive

M Warren
Finance Director

21 November 2019

INDEPENDENT REVIEW REPORT

to Caffyns plc

Introduction

We have been engaged by the Company to review the condensed consolidated set of financial statements in the half year report for the six months ended 30 September 2019 which comprises the Condensed Consolidated Statement of Financial Performance, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Statement of Consolidated Changes in Equity, the Condensed Consolidated Cash Flow Statement and the notes to the set of financial information.

We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of financial statements.

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed consolidated set of financial statements included in this half year report has been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half year report for the six months ended 30 September 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting its responsibilities in respect of half-yearly financial reporting in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP
Chartered Accountants
Southampton

21 November 2019

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