PERRYS EAST MIDLANDS LIMITED

(FORMERLY GK GROUP LIMITED)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2015

Company Registration No. 02086705

PERRYS EAST MIDLANDS LIMITED (FORMERLY GK GROUP LIMITED)

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2015

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PERRYS EAST MIDLANDS LIMITED (FORMERLY GK GROUP LIMITED)

OFFICERS AND PROFESSIONAL ADVISERS

The Board of Directors	K Savage D Ardron D Millard R Ingram
Company Secretary	N Taylor
Registered Office	Suite 1 500 Pavilion Drive Northampton Business Park Brackmills Northampton NN4 7YJ
Auditors	KPMG LLP Chartered Accountants Altius House 1 North Fourth Street Milton Keynes MK9 1NE

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2015

The Directors present their strategic report on the affairs of the Company for the year ended 31 December 2015.

Principal Activity and Business Review

The Company's principal activity during the year was the sale, repair and service of new and used motor vehicles and the supply of replacement parts.

During 2015 the Company operated 7 franchised dealerships. Detailed below are the franchised dealerships but it also operated a used car site, a parts distribution site and a bodyshop.

Dealership Car Franchises

Ford	5	Alfreton, Chesterfield, Mansfield, Retford and Worksop
Mazda	1	Mansfield
Kia	1	Worksop
	7	

Performance

The directors are pleased with the performance of the company during 2015 with revenues and gross profit increasing compared to 2014.

The results of the Company are shown on page 10 of the financial statements.

In August 2015 the company was acquired by Perrys Group Limited and is now operating under the Perrys brand.

Since the acquisition the Company has operated very successfully and its future outlook as part of Perrys is considered to be very promising.

Capital expenditure

The Company is planning to relocate its Chesterfield site to a brand new purpose built development in the centre of Chesterfield in 2017. The development is in a preliminary stage but this represents an exiting opportunity for the Company in the future.

Post Balance Sheet Events

Refinancing

Following the acquisition by Perrys the financing of the Company has been reviewed as part of the Perrys Group. Accordingly new arrangements have been entered into with Lloyds Bank which establish sufficient facilities over the next 5 years to enable the Company to realise its planned capital expenditure and provide sufficient working capital to fund its operations.

The directors are confident that the Company is in a good financial position and that there are exciting opportunities ahead.

Principal risks and uncertainties

The main risk factors are set out below but are not an exhaustive list of risks and uncertainties that could adversely impact on the Company's performance.

Economic Conditions

Profitability is strongly influenced by the prevailing economic conditions in the UK economy. The level of consumer confidence impacts discretionary spending including vehicle purchases, servicing and repair. The Company monitors this by considering internal and external indicators and takes appropriate action.

Manufacturer Dependency

Our franchised dealerships performance is significantly influenced by the performance of the manufacturer they represent. The product and the reputation of the manufacturer can determine dealership profitability. In order to mitigate this risk the Company currently represents 14 franchises thereby reducing over-reliance. Also, relationships are developed and maintained with existing and potential manufacturer partners and the Company monitors franchise performance over time.

Key Management

The Company is dependent on its senior management team. The Company performs succession planning, identifying potential replacements for key roles both internally and outside the Company. Recruitment procedures and remuneration packages are regularly reviewed to ensure the Company attracts and retains management of the required level.

Liquidity

The Company finances its operations through a mixture of retained profits, bank borrowings and trade credit from both suppliers and manufacturer partners. Movements in interest rates can impact profitability. In addition a withdrawal of financing facilities or failure to renew them as they expire could lead to an inability to finance trading. The utilisation of working capital is closely monitored and regular cash flow forecasts are prepared. The Company maintains relationships with several providers of finance to ensure that a comprehensive range of funding is available.

Information Systems

The Company is dependent upon a number of business critical computer systems which, if interrupted for any length of time, could impact on the efficient running of the Company's business. The Company has in place a business continuity plan to ensure that the Company can continue to operate should the systems be compromised.

The strategic report was approved on 23 June 2016 on behalf of the board by

K Savage
Director

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2015.

Dividends

No dividends have been paid or declared in the year (2014: £80,000).

Directors

The directors that served during the year were as follows:

Denise Millard	(appointed 10th August 2015)
Ken Savage	(appointed 10th August 2015)
Richard Ingram	(appointed 10th August 2015)
Darren Ardron	(appointed 10th August 2015)
G R J Kenning	(resigned10th August 2015)
D B B Kenning	(resigned10th August 2015)
R Farrall	(resigned 29th March 2015)
N Hopewell	(resigned 10th August 2015)
D E Kenning	(resigned 10th August 2015)
N B B Kenning	(resigned 10th August 2015)
P Rogers	(resigned 10th August 2015)

Future Developments

Future developments are considered in the Strategic Review on pages 3 to 4.

Corporate and Social Responsibility

Corporate and Social Responsibility are important to the Company.

Health and Safety

Health and Safety is of prime importance to the Company. The Company has a consistent framework for Health and Safety applied to all operations.

The Company has a Health and Safety policy approved by the board. The General Manager at each business is responsible for all Health and Safety matters supported by a site Health and Safety representative. In addition a Group Health and Safety manager is responsible for providing support and advice and also monitoring compliance. Regular audits are performed at each site by independent advisors. All staff receive an appropriate level of training.

Each month Health and Safety is considered by the main board and the Operations board as an agenda item.

Environmental matters

The Company's strategy on environmental matters is to ensure legal and regulatory compliance as well as seeking to reduce costs through effective resource management.

Community Support

The Company is proud to work with a diverse range of national and local charities and local community based organisations.

Employment of Disabled Persons

The Company gives full and fair consideration to applicants for employment received from disabled persons, having regard to their particular aptitudes and wherever possible, the Company continues the employment and arranges for appropriate training of employees that become disabled persons while employed by the Company. Disabled employees are treated no differently from any other employees as regards training, career development and promotion opportunities. This policy was operated by the Company where appropriate throughout the year.

Employee Involvement

The directors recognise the importance of good communications with employees at every level and regular Management and Staff Consultative and Health and Safety Committee meetings are held in each dealership.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors is aware of that information.

Auditors

Pusuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Registered Office:
Suite 1
500 Pavilion Drive
Northampton Business Park
Brackmills
Northampton
NN4 7YJ

Signed by order of the directors

N Taylor
Company Secretary

Approved by the directors on 23 June 2016

STATEMENT OF DIRECTORS' RESPONSIBILITES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2015

Directors' Responsibilities

The directors are responsible for preparing the Strategic Report and the Directors' Report and the 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 have elected to prepare the financial statements of the Company in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS101 'Reduced Disclosure Framework'. 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 of the Company and of the profit or loss of the Company for that year. 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 UK Accounting Standards 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 comply with the Companies Act 2006. 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PERRYS EAST MIDLANDS LIMITED (FORMERLY GK GROUP LIMITED)

We have audited the financial statements of Perrys East Midlands Limited (formerly GK Group Limited) for the year ended 31 December 2015 set out on pages 10 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 ' Reduced Disclosure Framework'.

This report is made solely to the 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 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As more fully explained in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the provisions of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements. Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PERRYS EAST MIDLANDS LIMITED (FORMERLY GK GROUP LIMITED)

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements 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.

P J Selvey.

Peter Selvey (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Altius House
1 North Fourth Street
Milton Keynes
MK9 1NE

Date: 23 June, 2016.

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2015

	Note	2015 £'000	2014 £'000
Turnover	2	179,490	164,900
Cost of sales		(160,633)	(146,940)
Gross profit		18,857	17,960
Operating expenses	3	(18,263)	(17,241)
Operating profit		594	719
Other interest receivable and similar income	5	314	110
Profit on ordinary activities before tax		908	829
Taxation on profit on ordinary activities	6	(211)	(148)
Profit on ordinary activities after tax		697	681

All results relate to continuing operations.

The notes on pages 14 to 39
form part of the financial statements

OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2015

	Note	2015 £'000	2014 £'000
Profit for the year		697	681
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Actuarial gain / (loss)	**22**	302	(325)
Deferred tax movement on actuarial loss / (gain) recognised in year	**6**	(88)	49
Other comprehensive income / (expense) for the year net of tax		214	(276)
Total comprehensive income for the year attributable to the owners of the company		911	405

The notes on pages 14 to 39
form part of the financial statements

PERRYS EAST MIDLANDS LIMITED (FORMERLY GK GROUP LIMITED)
Company Registration Number 2086705
BALANCE SHEET
AS AT 31 DECEMBER 2015

	Note	2015 £'000	2014 £'000
Fixed assets			
Property, plant and equipment	8	686	560
Investments	9	157	157
Total non-current assets		843	717
Current assets			
Stock	11	48,732	41,444
Amounts due from group undertakings	18	11,698	11,811
Debtors	12	8,648	4,869
Deferred tax asset		431	604
Cash and cash equivalents		2	140
Total current assets		69,511	58,868
Creditors: amounts falling due within one year			
Bank overdraft		1,350	-
Interest-bearing loans and borrowings	14	47	4,675
Trade and other creditors	15	51,626	42,091
Current tax payable	7	81	78
Total current liabilities		53,104	46,844
Net current assets		16,407	12,024
Total assets less current liabilities		17,250	12,741
Creditors: amounts falling due after more than one year			
Interest-bearing loans and borrowings	14	3,877	36
Provision for liabilities			
Employee benefit liability	22	863	1,106
Total non-current liabilities		4,740	1,142
Net assets		12,510	11,599
Capital and reserves			
Share capital	13	936	936
Other reserves		5,326	5,326
Retained earnings		6,248	5,337
Shareholders' funds		12,510	11,599

These financial statements were approved on 23 June 2016 on behalf of the board by

K Savage
Director

D Ardron
Director

The notes on pages 14 to 39 form part of the financial statements

PERRYS EAST MIDLANDS LIMITED (FORMERLY GK GROUP LIMITED)

STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2015

Year ended 31 December 2015	Share capital £'000	Revaluation reserve* £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2015	936	5,326	5,337	11,599
Profit for the year	-	-	697	697
Fair value losses	-	-	302	302
Tax on items taken directly to equity	-	-	(88)	(88)
Comprehensive income for the year	-	-	911	911
Balance at 31 December 2015	936	5,326	6,248	12,510

Year ended 31 December 2014	Share capital £'000	Revaluation reserve* £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2014	936	5,326	5,012	11,274
Profit for the year	-	-	681	681
Fair value losses	-	-	(325)	(325)
Tax on items taken directly to equity	-	-	49	49
Comprehensive income for the year	-	-	405	405
Transactions with owners - dividends paid	-	-	(80)	(80)
Balance at 31 December 2014	936	5,326	5,337	11,599

* Non-distributable balance sheet reserves.

The notes on pages 14 to 39 form part of the financial statements

1 Significant accounting policies

Perrys East Midlands Limited (the "Company") is a company domiciled in the United Kingdom.

These financial statements were authorised for issue by the directors on 23 June 2016.

Statement of compliance

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework ("FRS 101"). The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS's"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in note 21.

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRS's in the transition period. The following exemptions have been taken in these financial statements:

The Company's ultimate parent undertaking (Perrys Group Limited) includes the Company in its consolidated financial statements. The consolidated financial statements of Perrys Group Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Companies House, Crown Way, Cardiff CF14 3UZ.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactrions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRS's
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Perrys Group Limited include the equivalent disclosures, the Company has also taken exemptions under FRS 101 available in respect of the following disclosures:

- IFRS 2 'Share Based Payments' in respect of group settled share based payments;
- Certain disclosures required by IAS 36 ' Impairement of assets' in respect of the
- Certain disclosures required by IFRS 3 'Business Combination' in respect of business combinations undertaken by the Company.
- Certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instrument Disclosures'.

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on the historical cost basis as modified by the fair valuing of certain financial instruments. The financial statements disclose the results and net assets of the entity rather than those of the group it heads.

The financial statements have been prepared on the going concern basis under the historic cost convention, as modified by the fair valuation of certain financial assets and liabilities (including derivative financial instruments) at fair value. The directors have considered this appropriate given the substantial net assets of the company

Consolidated accounts are not prepared because the company is a wholly owned subsidiary of Perrys Group Limited which prepares consolidated accounts.

The preparation of financial statements in conformity with FRS 101 requires the directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates 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.

The directors considered the development, selection and disclosure of the Company's critical accounting policies and estimates.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

1 Significant accounting policies (continued)

Property, plant and equipment

i) Property

Short leasehold property is stated at cost less accumulated depreciation and any recognised impairment loss. Cost includes any directly attributable costs.

ii) Motor vehicles, plant and machinery, fixtures and computer equipment

Motor vehicles, plant and machinery, fixtures and computer equipment are held at cost less accumulated depreciation and any recognised impairment loss.

iii) Depreciation

The cost or deemed cost of each freehold and long leasehold building less its residual value is depreciated on a straight-line basis over its estimated useful economic life of 50 years.

The cost or deemed cost of property held under a short lease less its residual value is depreciated on a straight-line basis over the shorter of the estimated useful economic life of the property and the period to the expiry of the lease.

The cost of vehicles, plant, fixtures and equipment less its residual value is depreciated on a straight-line basis at the following annual rates:

Motor on contract hire	over the term of the contract
Plant and machinery	2 to 10 years
Motor Vehicles	2 to 6 Years

Asset lives and residual values are reviewed at least annually.

iv) Capitalisation of borrowing costs

The Company capitalises borrowing costs which are directly attributable to the acquisition, construction or production of qualifying assets. Borrowing costs which do not meet this criteria are expensed.

v) Disposals

The gain or loss arising on the disposal or retirement on an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value of the asset and is recognised in the income statement.

1 Significant accounting policies (continued)

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost less provision for impairment. Provision is made when there is objective evidence that the Company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Vehicle inventories, parts and other stocks are valued at purchase invoice cost which, for parts and other stock, is on a weighted average basis. Provisions are made against obsolete or surplus stock.

Vehicles on consignment from manufacturers, subject to interest or other charges, are included at purchase invoice cost. Consignment vehicles are regarded as being effectively under the control of the Company and are included within inventories on the balance sheet as the Company has the significant risks and rewards of ownership even though legal title has not yet passed. The corresponding liability is included in trade and other payables.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated selling expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Impairment

The carrying amount of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

1 **Significant accounting policies** (continued)

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

In respect of assets an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation if no impairment loss had been recognised.

Share capital

Ordinary shares are classed 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.

Dividends

Interim dividends on equity shares are recognised as a liability in the period in which they are declared.

Final dividends on equity shares are recognised as a liability in the period in which they are declared and ratified by the members at the Annual General Meeting.

Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings. Finance charges associated with arranging a bank facility are recognised in the income statement over the life of the facility. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

1 Significant accounting policies (continued)

Employee benefits

i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions are recognised as an expense in the income statement as incurred.

ii) Defined benefit scheme

Up until 6 April 2000 the company operated a defined benefit pension scheme which is administered by trustees and is independent of the company's finances. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.
Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently amortised at cost.

Revenue

Revenue is measured at invoice price, excluding discounts and value added taxes, and principally comprises external vehicle sales, parts, servicing and bodyshop sales. Vehicle and parts sales are recognised at the time of delivery to the customer. Service and bodyshop sales are recognised only when work is completed. Revenue also comprises commissions receivable for arranging vehicle financing and related insurance products. Commissions are based on agreed rates and income is recognised at the time of approval of the vehicle finance by the finance provider.

1 **Significant accounting policies** (continued)

The Company also derives revenue from used car warranty products. These warranty products can be taken out over a period of 12 months to 36 months with income received in advance of this period being released on a straight-line basis over the life of the policies. The unrecognised revenue is held within deferred ioncome.

The revenue recognised in respect of service plans sold and administered by the Company is recognised once the service work has been performed. The unrecognised revenue is held within deferred income.

Revenue also includes operating lease rentals from the provision of vehicles for rental. Rental income is recognised on a straight line basis over the period of the lease.

Finance costs

Finance costs comprise interest payable on borrowings.

Costs of raising finance are initially offset against proceeds of the finance raised and then amortised over the life of the instrument.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment for tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets are provided to the extent that it is probable that taxable profits will be available against which deductible timing differences can be utilised. The carrying values of deferred tax assets are reviewed at each balance sheet date and recognised to the extent that it is probable that the related tax benefit will be realised.

1 Significant accounting policies (continued)

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the Company are classified as finance leases. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

All leases are operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term.

Where the unavoidable costs of meeting the obligations of a lease exceed the expected benefits to be derived from it the Company recognises that an onerous contract exists. Where a lease is onerous to the Company, a liability is established for the shortfall in the net present value of future cash flows from the remainder of the lease.

Investments

Investments are stated at cost less provision for any impairment.

Financial liabilities and equity instruments

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

1 Significant accounting policies (continued)

Critical judgements and estimations

The following are the critical judgements that the directors have made in applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment

In testing for impairment, the directors have made certain assumptions concerning the future development of the business that are consistent with its annual budget. Whilst the directors consider these assumptions are realistic should these assumptions regarding the growth in profitability be unfounded then it is possible that goodwill and other assets included in the balance sheet could be impaired.

2 Turnover

Revenue is the value of goods and related services invoiced, less trade discount. Sales of used vehicles to the trade, inter-dealership sales and value added tax are excluded. All revenue is derived from the United Kingdom and from the business of operating motor dealerships.

3 Operating expenses

	2015	2014
	£'000	£'000
Wages and salaries	8,633	7,958
Auditor's remuneration	37	40
Loss / (profit) on sale of property plant and equipment	4	-
Depreciation on property plant and equipment	257	248
Operating lease rentals - property	389	352
Operating lease rentals - other	24	-
Other expenses	8,919	8,643
	18,263	17,241

The Company has taken exemption from disclosing fees paid to its auditors for non-audit services as this information is disclosed in the consolidated accounts of its parent company.

4 Personnel expenses

	2015	2014
	£'000	£'000
Wages and salaries	9,491	8,821
Social security contributions	875	811
Contributions to defined contribution plans	141	121
	10,507	9,753

Employee benefit expense included in:	**2015**	2014
	£'000	£'000
Operating expenses	8,633	7,958
Cost of sales	1,874	1,795
	10,507	9,753

4 Personnel expenses (continued)

The average monthly number of employees, including directors, during the period was as follows:

	2015	2014
	Number	Number
Management, sales, technicians and support	399	388

Directors' remuneration	**2015**	2014
	£'000	£'000
Emoluments from qualifying services	287	311
Social security contributions	26	30
Payments to personal pension schemes	8	11
	321	352

Remuneration in respect of the highest paid director was as follows:

	2015	2014
	£'000	£'000
Emoluments from qualifying services	125	97
Payments to personal pension schemes	4	4
	129	101

The number of directors accruing retirement benefits was as follows:

	2015	2014
	Number	Number
	3	4

No director has exercised any share options or received any shares under long term incentive schemes during the year.

5 Other interest receivable and similar income

	2015	2014
	£'000	£'000
On other loans	-	42
Other loans	(361)	(201)
Other finance costs (pension scheme)	47	49
	(314)	(110)

6 Income tax expense

Recognised in the income statement

	2015 £'000	2014 £'000
Current tax expense		
Current year	41	42
Adjustments for prior years	(2)	(33)
Total current tax expense	39	9
Deferred tax expense		
Current year	177	151
Adjustments for prior years	(5)	(12)
Total deferred tax expense	172	139
Total income tax charge in the income statement	211	148

Recognised in other comprehensive income

	2015 £'000	2014 £'000
Deferred tax on acturial loss (gain)	88	(49)

Reconciliation of effective tax rate

	2015 %	2015 £'000	2014 %	2014 £'000
Profit before tax		908		829
Income tax using the domestic corporation tax rate	20.3%	184	21.5%	178
Non-deductible expenses	0.1%	1	5.5%	46
Utilisation of losses	(15.0%)	(136)	(12.9%)	(107)
Capital allowances in deficit of depreciation	(1.3%)	(12)	(3.4%)	(28)
Other timing differences	0.4%	4	(5.7%)	(47)
Adjustments for prior years tax	(0.2%)	(2)	(4.0%)	(33)
Other adjustments for deferred tax	18.9%	172	16.8%	139
	23.2%	211	17.9%	148

6 Income tax expense (continued)

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. This will reduce the Company's future tax charge accordingly.

7 Current tax liabilities

The current tax liability of £81,000 (2014: £78,000) represents the amount of income taxes payable in respect of the current period less payments on account.

8 Property, plant and equipment

2015	Long leasehold £'000	Plant and equipment £'000	Total £'000
Cost			
Balance at 1 January 2015	174	3,677	3,851
Additions	-	388	388
Disposals	-	(13)	(13)
Balance at 31 December 2015	174	4,052	4,226
Depreciation and impairment losses			
Balance at 1 January 2015	45	3,246	3,291
Depreciation charge for the year	6	251	257
Disposals	-	(8)	(8)
Balance at 31 December 2015	51	3,489	3,540
Carrying amounts			
At 31 December 2015	123	563	686
Carrying amounts			
At 31 December 2014	129	431	560

8 Property, plant and equipment (continued)

Security

Property loans and bank overdrafts are secured over the property, plant and equipment of the Company.

9 Investments

	2015	2014
	£'000	£'000
Cost and net book value		
Balance at 1 January and 31 December	157	157

Included above is a trade investment of £10,000. All other investments are in subsidiary undertakings.

The subsidiaries of the Company at 31 December 2015 are as follows:-

Subsidiary	**Aggregate Capital and Reserves**	**Nature of Business**
2015 and 2014	**£**	
PEM County Garage Company Limited	(1,352,000)	Dormant
PEM (1931) Limited	56,000	Dormant
PEM Southern Limited	19,000	Dormant
PEM G. Marshall (Holdings) Limited	111,000	Dormant
PEM 2000 Limited	(3,500,873)	Holding company
PEM Northern Limited	37,000	Dormant

All subsidiaries are 100% owned. Each company is registered and incorporated in England and Wales at Suite 1, 500 Pavilion Drive, Northampton, NN4 7YJ. All companies have the same year end as Perrys East Midlands Limited.

All investments are stated at cost.

10 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2015	2014	**2015**	2014	**2015**	2014
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Accelerated capital allowances	(150)	(180)	-	-	(150)	(180)
Other short term timing differences	(51)	(33)	-	-	(51)	(33)
Losses carried forwards	(230)	(390)	-	-	(230)	(390)
Tax (assets)/liabilities	(431)	(604)	-	-	(431)	(604)

10 Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

	Balance 1 January 2015 £'000	Recognised in income £'000	Recognised in equity £'000	Balance 31 December 2015 £'000
Accelerated capital allowances	(180)	30	-	(150)
Other short term timing differences	(33)	(19)	-	(51)
On trading losses	(390)	160	-	(230)
	(604)	171	-	(431)

	Balance 1 January 2014 £'000	Recognised in income £'000	Recognised in equity £'000	Balance 31 December 2014 £'000
Accelerated capital allowances	(160)	(20)	-	(180)
Other short term timing differences	(27)	(6)	-	(33)
On trading losses	(516)	126	-	(390)
	(704)	100	-	(604)

The Company has remeasured its deferred tax liability at the end of the reporting period at 20%. The level of deferred tax is not expected to change significantly in the next year.

11 Inventories

	2015 £'000	2014 £'000
Vehicles (new, used and demonstrator)	47,773	40,671
Parts and Sundry stocks	959	773
	48,732	41,444

Inventories are shown net of impairment losses amounting to £95,000 (2014: £130,000). Impairment losses excludes vehicle write downs to net realisable values which are deducted from gross goods for resale.

The cost of inventories recognised as an expense was £160,633 (2014: £146,940).

Inventories are pledged as security for the stocking loan (note 16).

12 Debtors

	2015	2014
	£'000	£'000
Trade receivables	5,029	3,019
Other receivables	3,375	1,537
Prepayments	244	313
	8,648	4,869

Trade receivables are shown net of impairment losses amounting to £221,000 (2014: £307,000). The Company has reviewed trade receivables and has provided for debts where recoverability is considered remote.

The Company reviews all past due debtors to ensure that it is confident of recovery. Full provision is made against all debts not considered recoverable. Before accepting any new customers, the Company uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed regularly.

Movement in allowance for doubtful debts

	2015	2014
	£'000	£'000
Balance at the beginning of the period	307	307
Charge to income statement	(86)	-
	221	307

Included in the Company's trade receivable balance are debtors with a carrying value of £357,000 (2014: £201,000) which are past due at the reporting date for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered to be recoverable.

Ageing of past due but not impaired receivables	2015	2014
	£'000	£'000
60 to 90 days	299	162
Over 90 days	58	39
	357	201

The directors consider the carrying amount of trade and other receivables approximates their fair value.

The other asset classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The company does not hold any collateral as security.

13 Capital and reserves

Share capital

	2015 £'000	2014 £'000
Issued and fully paid		
936,134 Ordinary A shares of £1 each	936	936

14 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk, see note 16.

	2015 £'000	2014 £'000
Non-current liabilities		
Secured bank loans	15	36
Secured stocking loan	3,862	-
	3,877	36

	2015 £'000	2014 £'000
Current liabilities		
Current portion of secured bank loans	47	35
Secured stocking loan	-	4,640
	47	4,675

15 Trade and other payables

	2015 £'000	2014 £'000
Trade payables	49,600	39,483
Accruals and deferred income	2,026	2,608
	51,626	42,091

Trade and other payables, excluding social security and other taxes, are designated as financial liabilities carried at amortised cost. Their fair value is determined to be equal to their carrying value.

16 Operating leases

At 31 December 2015 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases as set out below:

	As at 31 December 2015		As at 31 December 2014	
	Land and buildings £'000	**Plant and equipment £'000**	Land and buildings £'000	Plant and equipment £'000
Payments:				
Within one year	20	5	-	5
Within one to five years	146	30	60	62
After five years	2,382	-	2,719	-
	2,548	35	2,779	67

During the year ended 31 December 2015, £389,000 was recognised as an expense in the income statement in respect of operating leases (2014: £352,000).

17 Capital commitments

Future capital expenditure authorised is as follows:

	2015 £'000	2014 £'000
Contracted for but not provided in the financial statements	-	-

18 Related parties

Amounts due from Group undertakings are non-interest bearing and have been classed as current assets this year as they are due on demand.

19 Ultimate Parent Company and Control of the Company

The Company is a wholly owned subsidiary of Perrys Group Limited who are the ultimate parent company. Control of Perrys Group Limited is exercised by D Millard, one of its directors and shareholders.

Perrys Group Limited, which is incorporated in England and Wales, is the only undertaking which prepares group accounts including the financial statements of the company. Copies of these accounts are available from Companies House, Crown Way, Cardiff CF14 3UZ.

20 Post Balance Sheet Events

Refinancing

Subsequent to the balance sheet date on 23 June 2016 the Group entered into renewed financing arrangements with Lloyds Bank / Bank of Scotland. The arrangements resulted in replacing the existing loans with committed facilities over five years comprising £20 million revolving credit facilities, £9.5 million term loan facilities and overdraft facilities of £6 million rising to £11 million on a seasonal basis.

21 Effect of IFRS adoption on statement of financial position

		1 January 2014		
		Previous GAAP	Effect of tranistion	Opening IFRS
	Note	£'000	£'000	£'000
Assets				
Non current assets				
Property, plant & equipment		844	-	844
Trade investments		10	-	10
Investments in subsidiaries		147	-	147
Amounts owed to group companies		1,990	-	1,990
Total non current assets		2,991	-	2,991
Inventories		35,446	-	35,446
Debtors		2,968	-	2,968
Other receivables		1,501	-	1,501
Deferred tax asset		704	-	704
Amounts owed to group companies		9,652	-	9,652
Cash & Cash Equivalents		3	-	3
Total current assets		50,274	-	50,274
Interest bearing loans		(1,093)	-	(1,093)
Trade and other payables		(39,986)	-	(39,986)
Current taxation		(1)	-	(1)
Employee benefit liability		(911)	-	(911)
Total liabilities		(41,991)	-	(41,991)
Total assets less total liabilities		11,274	-	11,274

	31 December 2014		
	Previous GAAP	Effect of tranistion	IFRS
	£'000	£'000	£'000
Assets			
Non current assets			
Property, plant & equipment	560	-	560
Trade investments	10	-	10
Investments in subsidiaries	147	-	147
Amounts owed to group companies	1,990		1,990
Total non current assets	2,707	-	2,707
Inventories	41,444	-	41,444
Debtors	3,019	-	3,019
Other receivables	1,850	-	1,850
Deferred tax asset	604	-	604
Amounts owed to group companies	9,822	-	9,822
Cash & Cash Equivalents	140	-	140
Total current assets	56,879	-	56,879

21 Effect of IFRS adoption on statement of financial position (continued)

Interest bearing loans	(71)	-	(71)
Trade and other payables	(46,731)	-	(46,731)
Current taxation	(78)	-	(78)
Employee benefit liability	(1,107)	-	(1,107)
Total liabilities	(47,987)	-	(47,987)
Total assets less total liabilities	11,599	-	11,599

Reconciliation of Equity	**Date of transition** **As at 1 January 2014 (date of transition)**	**Last reporting period under old UK GAAP** **As at 31 December 2014**
	£'000	**£'000**
Total Equity under old GAAP and IFRS	11,274	11,599

Reconciliation of total comprehensive income

Total comprehensive income for the reporting period ended 31 December 2014 can be reconciled to the amounts reported under previous GAAP as follows:

	Previous GAAP	**Effect of transition**	**IFRS**
	£'000	**£'000**	**£'000**
Turnover	164,900		164,900
Cost of sales	(146,940)		(146,940)
Gross profit	17,960	-	17,960
Operating expenses	(17,241)		(17,241)
Operating Profit	719	-	719
Finance Income	267	(115)	152
Finance Costs	(42)		(42)
Profit before tax	944	(115)	829
Taxation	(148)		(148)
Profit for the year	796	(115)	681
Other comprehensive income			
Items recognised in other comprehensive income, under IFRS, net of tax		(276)	(276)
Total Comprehensive income	796	(391)	405

Under previous GAAP the company did not show movements on its pension liability within other comprehensive income, instead they were shown as movements on reserves.

22 Retirement benefit obligations

The Company sponsors a scheme, "GK Group Limited Pension Scheme" which is a funded defined benefit arrangement.

The scheme is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities for some 130 past employees as at 30 April 2013. The level of retirement benefit is principally based on salary earned in the last three years of employment prior to leaving active service and is linked to changes in inflation up to retirement.

The scheme is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined occupational pension plans in the UK.

The trustees of the scheme are required to act in the best interests of the plan's beneficiaries. The appointment of the trustees is determined by the scheme's trust documentation. It is policy that one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 5 April 2013 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the scheme is agreed between the company and the trustees in line with those requirements. These in particular require the surplus / deficit to be calculated using prudent, as opposed to best estimate, actuarial assumptions.

This actuarial valuation showed a deficit of £1,624,000. This position was updated to 28 February 2014 and the Group has agreed with the trustees that it will aim to eliminate the deficit of £192,000 at that date over a period of 2 years from 6 April 2014 by the payment of annual contributions of £74,000 in respect of the deficit. In addition and in accordance with the actuarial valuation, the company has agreed with the trustees that it will pay amounts into the scheme equal to any levy payments by the scheme to the PPF within one month of them being paid. Insurance premiums for DIS benefits, management and administration expenses are payable separately by the company as and when they are due.

For the purposes of IAS 19 the actuarial valuation as at 5 April 2013, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2015. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

22 Retirement benefit obligations (continued)

Amounts Included in Balance sheet

	31 Dec 2015 £'000	31 Dec 2014 £'000
Fair value of plan assets	9,074	9,197
Present value of defined benefit obligation	10,126	10,580
(Deficit) in scheme	(1,052)	(1,383)
Deferred tax	189	277
Net (liability) to be recognised	**(863)**	**(1,106)**

The present value of plan liabilities is measured by discounting the best estimate of future cash flows to be paid out by the plan using the projected unit credit method. The value calculated in this way is reflected in the net liability in the balance sheet as shown above.

All actuarial gains and losses will be recognised in the year in which they occur in Other Comprehensive Income (OCI).

Reconciliation of the impact of the asset ceiling

The Group have reviewed implications of the guidance provided by IFRIC 14 and have concluded that it is not necessary to make any adjustments to the IAS 19 figures in respect of an asset ceiling or Minimum Funding Requirement as at 31 December 2015.

22 Retirement benefit obligations (continued)

Reconciliation of opening and closing present value of the defined benefit obligation

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Defined benefit obligation at start of year / period	10,580	9,944
Current service cost	40	39
Interest expense	362	443
Actuarial (gains) due to changes in demographic assumptions	(97)	(658)
Actuarial (gains) / losses due to changes in financial assumptions	(223)	1,271
Benefits paid and death in service premiums	(536)	(459)
Defined benefit obligation at end of year / period	**10,126**	**10,580**

There have been no plan amendments, curtailments or settlements in the accounting period.

Reconciliation of opening and closing values of the fair value of plan assets

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Fair value of plan assets at start of the period	9,197	8,806
Interest income	315	394
Return on plan assets (excluding amounts included in interest income)	(18)	288
Contributions by the Group	116	168
Benefits paid and death in service premiums	(536)	(459)
Defined benefit obligation at end of year / period	**9,074**	**9,197**

The actual return on plan assets over the period ended 31 December 2015 was £297,000.

22 Retirement benefit obligations (continued)

Defined benefit costs recognised in the income statement

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Current service cost	40	39
Net interest cost	47	49
Defined benefit costs recognised in the income statement	**87**	**88**

The actual return on plan assets over the period ended 31 December 2015 was £297,000.

Defined benefit costs recognised in other comprehensive income

	Year ended 31 Dec 2015 £'000	Year ended 31 Dec 2014 £'000
Return on plan assets (excluding amounts included in net interest cost) (loss) / gain	(18)	288
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation	97	658
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - gain / (loss)	223	(1,271)
Total amount recognised in other comprehensive income - gain / (loss)	**302**	**(325)**

Assets

	31 Dec 2015 £'000	31 Dec 2014 £'000
UK Equities	1,909	2,800
Overseas Equities	920	1,349
Corporate Bonds	1,631	1,925
Government Bonds	1,449	1,840
Diversified Growth Funds	878	891
Cash	2,287	392
Total assets	**9,074**	**9,197**

22 Retirement benefit obligations (continued)

None of the fair values of the assets shown above include any direct investments in the Group's own financial instruments or any property occupied by, or other assets used by, the Group. All of the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance.

It is the policy of the trustee's and the Group to review the investment strategy at the time of each funding valuation. The trustee's investment objectives and the process ess undertaken to measure and manage the risks inherent in the plan investment strategy are documented in the plan's Statement of Investment Principles.

Significant actuarial assumptions

	31 Dec 2015 % per annum	31 Dec 2014 % per annum
Discount Rate	3.70	3.50
Inflation (RPI)	3.20	3.10
Inflation (CPI)	2.00	1.90
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.00	1.90
Allowance for revaluation of deferred pensions of CPI or 3% p.a. if less	1.80	1.70
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less, minimum 3% p.a.	3.30	3.25
Allowance for commutation of pension for cash at retirement	100% of Post A Day	

The mortality assumptions adopted at 31 December 2015 are 113% of the standard tables S1PxA, Year of Birth, no age rating for males and females, projected using CMI_2015 converging to 1.50% p.a. These imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2015	21.2
Female retiring in 2015	23.0
Male retiring in 2035	23.3
Female retiring in 2035	24.5

22 Retirement benefit obligations (continued)

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

	Change in assumption	**Change in liability**
Discount rate	Decrease of 0.25% p.a.	Increase by 3.4%
Rate of inflation	Increase 0.25% p.a.	Increase by 0.9%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 2.9%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation and pension increases. The average duration of the defined benefit obligation at the period ended 31 December 2015 is 14 years.

The scheme typically exposes the Company to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase in plan liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future income statements. This effect would be partially offset by an increase in the value of the scheme's bond holdings. Additionally, caps on inflationary increases are in place to protect the scheme against extreme inflation.

The best estimate of contributions to be paid by the Company to the plan for the period commencing 1 January 2016 is £18,500.