PERRYS EAST MIDLANDS LIMITED

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2019

Company Registration No. 02086705

PERRYS EAST MIDLANDS LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2019

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OFFICERS AND PROFESSIONAL ADVISERS

The Board of Directors	R Ingram (Chairman) D Millard K Savage D Ardron N Taylor
Company Secretary	N Taylor
Registered Office	Suite 1 500 Pavilion Drive Northampton Business Park Brackmills Northampton NN4 7YJ
Auditors	Jackson Stephen LLP James House Stonecross Business Park Yew Tree Way Warrington Cheshire WA3 3JD

The Directors present their strategic report on the affairs of the Company for the year ended 31 December 2019.

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 2019 the Company operated 9 franchised dealerships from 5 locations. Detailed below are the franchised dealerships.

Dealership Car Franchises

Ford	5	Alfreton, Chesterfield, Mansfield, Retford and Worksop
Mazda	1	Mansfield
Kia	1	Worksop
Ford Transit Centre	2	Chesterfield and Mansfield
	9	

In addition the Company also operates one parts distribution centre and one bodyshop from an additional two locations.

Financial Performance

The Company has produced an excellent set of results against a backdrop of challenging trading conditions for the motor sector. The Company saw an increase of turnover from £173,196,000 to £192,342,000 but a lower level of operating profit (after adjusting for exceptional items) of £1,007,000 against £1,084,000 compared to 2018.

The higher turnover was achieved at a gross profit margin of 11.23% compared to 11.76% in 2018 but the loss in margin was mitigated by a lower level of operating expenses at 10.7% of turnover against 11.14% in 2018. Accordingly operating profit before exceptional items was down to 0.52% of turnover against 0.63% in 2018.

New cars

The new car market in 2019 was challenging, with registrations of private new vehicles falling by 3.2%, the second successive year of reduced volumes. The decline was caused by factors such as BREXIT and the mixed messages about diesel cars. Unit sales in new vehicles increased from 5,399 in 2018 to 5,497 in 2019 against this backdrop. Margins on new vehicles also increased which meant that the direct profit earned in the year was £350,000 ahead of last year.

The Company is especially strong in the sale of new commercial vehicles. During the year it sold 3,173 compared to 3,063 last year. Margins and direct profit were comparable with 2018.

Used cars

During the year there were substantial CAP valuation drops which made the market difficult but the Company benefitted from the new web site introduced in April 2019.

Used car unit sales fell in 2019 to 4,163 from 4,178 in 2018. However, during the same period used car margins were stronger at £464 per unit compared to £439 per unit in 2018 realising an increase in direct profit of £100,000.

Aftersales

Aftersales performed well in 2019. All major departments in aftersales earned more direct profit in 2019 compared to 2018. Most noteably the new smart repairs contributed an additional £163,000 direct profit, an increase of £48,000 compared to 2018.

Exceptional items

During the year the Company recognised an income of £62,000 of pre-tax exceptional items (2018 a charge of £591,000). The income arose from a further restatement of the charges made in 2018. Details are disclosed in note 10 of the accounts.

The results of the Company are shown on page 15 of the financial statements.

Current Trading and Outlook

The Company has traded in accordance with expectations for the first two months of 2020. The Company has been impacted by the COVID-19 virus in that the majority of the business was closed on the 27 March 2020 under instruction from the Government. The business was allowed to reopen on the 1 June 2020 under strict social distancing guidelines. We anticipate that the business will have made significant losses in the first five months of trading. At this stage it is too early to accurately quantify what the full year impact will be however the Company has a strong balance sheet and full support from our funders.

Company Strategy

The Company has a strategy of achieving sustainable growth and increased shareholder value which

- driving operational efficiencies whilst maintaining investment in assets.
- making customer experience and satisfaction an integral part of the Company culture.
- establishing brand recognition in the regions in which it has chosen to operate.

The Company recognises the changing market environment and the need to drive down costs. It is a central part of the Company's strategy to take advantage of multi-franchising opportunities where they arise so that the Company can achieve economies.

Financing

Net debt at December 2019 reduced to £187,000 compared to December 2018 of £1,181,000.

Following the refinancing which took place in 2016, the Company secured sufficient committed bank facilities to enable it to complete its planned capital expenditure and provide adequate working capital to fund its operations.

Capital expenditure

In 2018 the Company relocated its main Chesterfield dealership to a purpose built site. During 2019 there have been no significant capital projects.

Leases

The accounts for 2019 are the first accounts following the adoption of IFRS 16. The impact of the adoption of the new standard has resulted in assets of £2,467,000 being capitalised at the end of 2019. In addition a lease liability of £2,853,000 has been recognised at the end of the year.

The impact on the operating result arising from the adoption of IFRS 16 has been to reduce the operating lease payments by £530,000 but increase interest cost by £74,000 and increasing depreciation by £444,000 resulting in additional profit of £12,000. The impact of adopting IFRS 16 on opening reserves was to reduce the value of reserves by £213,000.

Computer Systems and Other Capital additions

The Company continued to invest in ensuring that its computer systems and its estate were being maintained effectively.

As part of the strategy to improve customer experience and satisfaction the Company updated its website in April 2019. The new website has increased functionality to support customers in their decision making.

Customer and Employee Focus

The Company has pursued a policy of centralising certain functions to generate more efficiency and expertise. The establishment of the Business Development Centre (BDC) and the Aftersales Contact Centre (ACC) ensures consistency when engaging with customers and enables the dealerships to concentrate on servicing customers needs.

People First

People First is the name given to the Company's employee engagement programme which is designed to foster both employee and customer satisfaction. The Company continues to invest in this programme to establish the principles of People First in the culture of the Company.

Post Balance Sheet Events

The Compny has been impacted by the COVID-19 virus in that the majority of the business was closed on the 27 March 2020 under instruction from the Government. The business was allowed to reopen on the 1 June 2020 under strict social distancing guidelines. We anticipate that the business will have lost £1 million in the first five months of trading. At this stage it is too early to accurately quantify what the full year impact will be however the Company has a strong balance sheet and full support from our funders.

Following discussion with funders, the March quarter banking covenants were waived. Discussions are in progress regarding the June quarter end covenants. It is likely the basis of the Covenants will be on cash usage. The Group has significant head room on borrowing facilities and the directors are not anticipating the need for any additional facilities.

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.

The impact of the UK's departure from the EU and the Coronavirus pandemic presents a risk to consumer confidence and economic activity in general but may also present specific issues for new vehicle procurement and price. The Company is closely monitoring developments and is prepared to act swiftly in response to events. The Company's strategy to develop and maintain revenues from other segments reduces reliance on new vehicle franchises.

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 and the impact of Brexit on those relationships has yet to be determined. In order to mitigate this risk the Company currently represents three different franchises which provides some mitigation of over reliance on one franchise. 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. 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 Company also has an appropriate level of cyber liability insurance in place.

Coronavirus

The developing situation in relation to the outbreak of Coronavirus (COVID-19) is constantly under review. The immediate focus is the health, safety and well being of our team members, customers and suppliers. We have a crisis management team whose role is to co-ordinate our response and introduce new measures such as home working.

The Directors consider that the Coronavirus pandemic presents significant challenges and uncertainties to future trading conditions. Whilst the directors have instituted measures to preserve cash and improve performance, there remains a level of uncertainty over future trading results and cash flows.

Section 172(1) statement

In discharging their duty to promote the interests of the Company under section 172 Companies Act 2006, the Directors of the Company have regard to a number of factors and stakeholder interests. These are described below.

The Company is a wholly owned subsidiary. Accordingly, the Directors do not consider the factors listed in section 172(1)(d) (the impact of the Company's operations on the community and the environment) or section 172(1)(f) (need to act fairly between the members of the Company) are relevant to the proper discharge of their duty under section 172.

Each of these factors are considered in relation to the Group's broader operations as explained in the section 172(1) statement within the financial Statements of Perrys Group Limited (the ultimate parent of Perrys East Midlands Limited) for the year ended 31 December 2019.

Interests' of the Company's employees

The Company recognises that a diverse workforce is critical to the future of the business and strives to create an environment where its employees can thrive personally and professionally. Long term success depends upon the recruitment, development, wellbeing and retention of high quality people that share the right core values and culture. Integral to this approach is communication. The Company adopts the following principal methods of engagement with its employees:

- Staff satisfaction survey: the Company runs an annual staff survey to understand ways in which it can improve the working environment.
- Town hall meetings: All employees meetings are held with members of the main board annually.
- Group wide training: Comprehensive training is given where appropriate to all employees relevant to functional and compliance matters.

Long term consequences of business decisions and maintaining reputation for high standards of business conduct

The Company operates in accordance with the strategic plan and direction set out by the Group which is designed to have a long-term beneficial impact on the Company and to contribute to its success in delivering a high quality of service. It is the intention of the board of directors to ensure all employees behave in a responsible manner and uphold high standards of business conduct and good governance.

Identification of, and engagement with, stakeholder groups

The Company recognises the importance of maintaining strong relationships with its stakeholders in order to create sustainable long term value and the Board encourages active dialogue with all its stakeholder groups. The Board believe that the two main stakeholder groups which are relevant to the proper discharge of the duties of the Directors of the Company under section 172(1) are:-

- The Group's external lenders;
- The Group's owners.

Details of these groups, and the main methods the Directors have used to engage with those stakeholders during the course of the year, is set out in the corporate governance statement within the financial statements of Perrys Group Limited for the year ended 31 December 2019.

The strategic report was approved on 4 June 2020 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 2019.

Dividends

No dividends have been paid or declared in the year (2018: £Nil).

Directors

The directors that served during the year were as follows:

Richard Ingram (Chairman)
D Millard
K Savage
D Ardron
N Taylor

Future Developments

Future developments are considered in the Strategic Report on pages 3 to 8.

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 throughout the year.

Strategic Report

Some information required by Schedules 7 & 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 has been included in the separate Strategic Report in accordance with sections 414c(11) and 172(1) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

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 they ought to have taken as a director to make themself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Labour Standards and Human Rights

In 2015 the UK Government published the Modern Slavery Act (MSA) which places a duty on companies to make a public statement on the steps to minimise the possibility that slavery or human trafficking is happening in their own business or in their supply chain. This statement can be found on the Group's website at www.perrys.co.uk.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Jackson Stephen 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 4 June 2020

STATEMENT OF DIRECTORS' RESPONSIBILITES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2019

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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Opinion

We have audited the financial statements of Perrys East Midlands Limited ("the Company") for the year ended 31 December 2019 which comprise the Income Statement and Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the company, 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Use of our report

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.

Jackson Stephen LLP

Christopher Moss BSc F.C.A. (Senior Statutory Auditor)
for and on behalf of Jackson Stephen LLP

Chartered Accountants
Statutory Auditor
James House
Stonecross Business Park
Yew Tree Way
Warrington
Cheshire
WA3 3JD

Date: 09/06/2020

PERRYS EAST MIDLANDS LIMITED
INCOME STATEMENT
YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	* 2018 £'000
Revenue	7	192,342	173,196
Cost of sales		(170,750)	(152,826)
Gross profit		21,592	20,370
Operating expenses before exceptional items	8	(20,585)	(19,286)
Operating profit before exceptional items		1,007	1,084
Exceptional income	10	62	-
Exceptional costs	10	-	(591)
Operating profit		1,069	493
Finance costs	11	(42)	(117)
Profit on ordinary activities before tax		1,027	376
Taxation on profit on ordinary activities	12	(125)	37
Profit on ordinary activities after tax		902	413

*The Company has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 4.

The notes on pages 19 to 56 form part of the financial statements

PERRYS EAST MIDLANDS LIMITED
STATEMENT OF OTHER COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2019

	Note	2019 £'000	* 2018 £'000
Profit for the year		902	413
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Actuarial gain / (loss)	**29**	502	(31)
Deferred tax movement on actuarial (gain) / loss recognised in year	**12**	(80)	(4)
Other comprehensive income / (expense) for the year net of tax		422	(35)
Total comprehensive income for the year attributable to the owners of the company		1,324	378

* The Company has initially applied IFRS 16 at 1 January 2019 using the retrospective approach. Under this approach, comparative information is not restated. See Note 4.

PERRYS EAST MIDLANDS LIMITED
Company Registration Number 02086705
BALANCE SHEET
AS AT 31 DECEMBER 2019

	Note	2019 £'000	2018 £'000
Fixed assets			
Property, plant and equipment	14	1,655	1,738
Right of use assets	15	2,467	-
		4,122	1,738
Deferred tax asset	17	164	116
Total non-current assets		4,286	1,854
Current assets			
Inventories	18	61,136	55,707
Amounts due from group undertakings	27	23,107	20,905
Trade and other receivables	19	5,637	6,113
Cash and cash equivalents		5	4
Total current assets		89,885	82,729
Creditors: amounts falling due within one year			
Bank overdraft		192	1,185
Interest-bearing loans and borrowings	21	-	-
Lease liabilites	22	949	-
Trade and other payables	23	63,017	57,613
Contract liabilities	24	1,371	1,278
Current tax liabilities	13	128	-
Provisions	25	5	130
Total current liabilities		65,662	60,206
Net current assets		24,223	22,523
Total assets less current liabilities		28,509	24,377
Creditors: amounts falling due after more than one year			
Lease liabilities	22	1,904	-
Trade and other payables	23	11,391	9,858
Provisions	25	54	-
Employee benefit liability	29	578	1,048
Total non-current liabilities		13,927	10,906
Net assets		14,582	13,471
Capital and reserves			
Share capital	20	936	936
Other reserves		5,326	5,326
Retained earnings		8,320	7,209
Shareholders' funds		14,582	13,471

* The Company has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. See Note 4.

These financial statements were approved on 4 June 2020 on behalf of the board by

K Savage
Director

N Taylor
Director

The notes on pages 19 to 56 form part of the financial statements

PERRYS EAST MIDLANDS LIMITED
STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2019

Year ended 31 December 2019	Share capital £'000	Revaluation reserve(1) £'000	Retained earnings £'000	Total £'000
Balance at 31 December 2018 as previously reported*	936	5,326	7,209	13,471
Adjustment on initial application of IFRS 16 (net of tax)	-	-	(213)	(213)
Adjusted balance at 1 January 2019	936	5,326	6,996	13,258
Profit for the year	-	-	902	902
Remeasurement of net defined benefit liability	-	-	502	502
Tax on items taken directly to equity	-	-	(80)	(80)
Total comprehensive income for the year	-	-	1,324	1,324
Balance at 31 December 2019	936	5,326	8,320	14,582

Year ended 31 December 2018	Share capital £'000	Revaluation reserve(1) £'000	Retained earnings £'000	Total £'000
Opening retained earnings	936	5,326	6,831	13,093
Profit for the year	-	-	413	413
Remeasurement of net defined benefit liability	-	-	(31)	(31)
Tax on items taken directly to equity	-	-	(4)	(4)
Total comprehensive income for the year	-	-	378	378
Balance at 31 December 2018	936	5,326	7,209	13,471

(1) Non-distributable balance sheet reserve.
*The Company has initially applied IFRS 16 at 1 January 2019 using the modified approach. Under this approach, comparative information is not restated. See Note 4.

1 Significant accounting policies

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

2 Statement of compliance

The Company's financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). The Company has elected to prepare its financial statements in accordance with FRS 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2016/17 cycle issued in July 2017 and amendment issued in December 2017) have been applied.

3 Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand. The financial statements have been prepared on the going concern basis under the historic cost convention, as modified by the fair valuing of certain financial assets and liabilities (including derivative financial instruments).

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 IFRSs"), 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.

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, as adopted by the EU and are available to the public and may be obtained from Companies House, Crown Way, Cardiff CF14 3UZ.

Consolidated accounts are not prepared because the Company is a wholly owned subsidiary of Perrys Group Limited which prepares consolidated accounts. These are the separate financial statements of the Company.

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;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- 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 Company settled share based payments;
- Certain disclosures required by IAS 36 'Impairment of assets' in respect of the impairment of goodwill;
- Certain disclosures required by IFRS 13 'Fair Value Measurement' and the disclosures required by IFRS 7 'Financial Instrument Disclosures'.

3 Basis of preparation *(continued)*

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 3 to 8. The financial position of the Company is set out on page 17. The Company has considerable financial resources; as a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The directors have specifically reviewed the potential impacts and available mitigating actions as a result of Brexit and COVID-19 virus. The business closed most of the sites from 27 March 2020, and commenced re-opening from 1 June 2020. The Company has taken advantage of the Government's Furlough Grant in order to support the group until trading restarts. The Company is also benefiting from the rates relief on dealership premises.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

4 New accounting standards

This is the first set of the Company's annual financial statements in which IFRS 16 *Leases* has been applied.

The Company has initially applied IFRS 16 from 1 January 2019.

Due to the transition method chosen by the Company in applying IFRS 16, comparative information throughout these financial statements has not been restated to reflect its requirements.

IFRS 16 Leases

IFRS 16 introduces a single, on balance sheet accounting model for leases. As a result, the Company, as a lessee, has recognised right of use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information for 2018 has not been restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the change in accounting policy is disclosed below.

4 New accounting standards *(continued)*

IFRS 16 Leases (continued)

Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right of use assets and lease liabilities for most leases - i.e. those lease are on balance sheet.

The company decided to apply recognition exemptions to short term leases of vehicles and property. For leases of other assets, which were classified as operating under IAS 17, the Company recognised right of use assets and lease liabilities

Leases classified as operating leases under IAS 17

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right of use assets are measured at either:

- Their carrying value as if IFRS 16 had been applied since the lease commencement date, discounted by the Company's incremental borrowing rate as at 1 January 2019. The Company has applied this methodology to its property leases.
- An amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments. This method has been applied to the Company's motor vehicle leases.

4 New accounting standards *(continued)*

IFRS 16 Leases (continued)

The Company used the following practical expedients when applying IFRS 16 to leases previously

- Applied a single discount rate to a portfolio of leases with similar characteristics
- Adjusted the right of use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review
- Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Leases previously classified as finance leases

There were no leases that were classified as finance leases under IAS 17.

As a lessor

The Company is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub lease. The Company accounted for its leases in accordance with IFRS 16 from the date of initial application.

Impacts on financial statements

Under IFRS 16, the Company is required to assess the classification of a sub lease with reference to the right of use asset, not the underlying asset. On transition, the Company reassessed the classification of a sub lease contract previously classified as an operating lease under IAS 17. The Company concluded that the sub lease is a finance lease under IFRS 16.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rates at 1 January 2019. The rates applied were between 2% and 4%. The weighted average rate applied was 3.18%.

4 New accounting standards *(continued)*

IFRS 16 Leases (continued)

	£'000
Operating lease commitments at 31 December 2018 as disclosed in the Company's financial statements	3,670
Discounted using the incremental borrowing rate at 31 December 2018	(440)
	3,230
Finance lease liabilities recognised as at 31 December 2018	
- Recognition exemption for:	
* short term leases	(1,521)
* lease of low value assets	-
Lease liabilities recognised at 1 January 2019	1,709

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning on or after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

None of the standards not yet effective are expected to have a material impact on the Company's financial statements in the period of initial application.

5 Significant accounting policies

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) Plant and equipment

Plant and equipment consists of motor vehicles, plant and machinery, fixtures and computer equipment. These are held at cost less accumulated depreciation and any recognised impairment loss.

5 Significant accounting policies (continued)

Property, plant and equipment *(continued)*

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 vehicles	10%-33%
Plant and machinery	10%-25%
Fixtures and fittings	7.5%-25%
Computer equipment	15%-20%

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.

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.

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.

5 Significant accounting policies (continued)

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.

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.

For goodwill, the recoverable amount is estimated at each balance sheet date. The recoverable amount is calculated as the higher of fair value less costs to sell and value in use. In assessing value in use the estimated future cash flows from operations are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amounts of other assets in the unit. An impairment loss in respect of goodwill is not reversed.

5 Significant accounting policies (continued)

Impairment (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 other than goodwill, 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.

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.

5 Significant accounting policies (continued)

Employee benefits

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.

The defined contribution pension scheme is run by third party suppliers and the assets of the schemes are held separately from the Company. For the defined contribution schemes, an amount of £240,000 (2018: £179,000) was charged in the profit and loss account. Contributions of £20,000 (2018: £16,000) were outstanding at the balance sheet date.

Defined benefit pension plan

The Company operates a trust based defined benefit pension scheme, GK Group Pension Scheme, which is closed to new entrants. Typically, defined benefit schemes define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The assets of the defined benefit scheme are held separately from the assets of the Company. The asset or liability recognised in the balance sheet in respect of the defined benefit pension scheme is the present value of the defined obligations at the balance sheet date less the fair value of plan assets. Defined benefit obligations are calculated annually by independent actuaries using the projected unit credit method. The present value of defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Differences between the actual and expected return on assets, changes in retirement benefit obligations due to experience and changes in actuarial assumptions are included in the statement of comprehensive income in full for the year in which they arise.

Trade and other payables

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

Included within the category of trade payables is financing of vehicles, which is secured on the vehicles to which they relate and bear interest related to finance house base rates.

5 Significant accounting policies (continued)

Revenue

Sale of motor vehicles, parts and aftersales services

For the sale of motor vehicles, parts and aftersales services revenue is recognised when vehicles or parts have been supplied or when service has been completed which is when the performance obligation occurs. The Company has a number of manufacturer partners who will provide goods / services to customers e.g. free servicing when purchasing a new vehicle. Such items do not have a contractual obligation on the Company as the obligation lies with the manufacturer.

Vehicles are usually paid for prior to delivery. Some fleet vehicle customers have credit terms. Parts are either paid for on delivery or on agreed credit terms, depending upon whether the customer is retail or has a trade account. Payments for service and repairs are upon completion of the service for retail customers and on agreed credit terms for trade customers.

Deposits received from customers relating to future purchases is included in contract liabilities.

Service plans

The Company sells service plans to customers so that customers can fix the price of their services in the future. The sale is recognised when the service has been completed, which is when the performance obligation occurs.

Service plans are paid for prior to the commencement of the policy. Some budget plans allow for monthly instalments to be made prior to the service being completed.

Balances carried forward are included in contract liabilities.

Sale of warranty products

The income received in respect of warranty policies sold and administered by the Company is recognised over the period of the policy on a straight line basis. The performance obligation of the Company, being the rectification of the mechanical faults on vehicles sold, will be the period over which the customer can exercise their rights under the warranty and therefore revenue should be recognised over the period of the warranty. Warranties are paid for prior to the commencement of the policy.

Balances carried forward are included in contract liabilities.

Commissions received

The Company receives commissions when it arranges finance and insurance packages for its customers to purchase its product and services, acting as agent on behalf of various finance and insurance companies. Commissions receivable are typically paid in the month after the finance is drawn down.

Revenue is recognised when a customer obtains the benefit of financing which is on delivery and when the customer signs the vehicle finance document.

5 Significant accounting policies (continued)

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are items that are material either because of their size or their nature and are nonrecurring.

Finance income

Finance income is earned on intergroup loan balances.

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

Interest expense is recognised using the effective interest method. The 'effective interest rate' is the

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest expense, the effective interest rate is applied to the amortised cost of the

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.

5 Significant accounting policies (continued)

Leases

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 4.

Policy applicable from 1 January 2019

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset;
- the Company has the right to obtain substantially all of the economic benefits for the use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand alone prices. However for the leases of land and building in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

As a lessee

The Company recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term. The estimated useful lives of right of use assets are determined on the same basis as those of property and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

5 Significant accounting policies (continued)

Leases (continued)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit and loss if the carrying amount of the right of use asset has been reduced to zero.

Short term leases and leases of low value assets

The Company has elected not to recognise right of use assets and lease liabilities for short term leases of £1,521,000 that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

As a lessor

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for a major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short term lease to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease

If the arrangement contains lease and sub-lease components, the Company applies IFRS 15 to allocate the consideration in the contract.

The Company recognises lease payments received under operating leases as income on a straight line basis over the term of the lease as part of other revenue.

5 Significant accounting policies (continued)

Leases (continued)

Policy applicable before 1 January 2019

In the comparative period, all assets held under leases were classified as operating leases and were not recognised in the Company's balance sheet. Payments made under operating lease were recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16. However, when the Company was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

Investments

Investments are stated at cost less provision for any impairment.

Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Company has also adopted consequential amendments to IAS 1 Presentation of Financial Statements. Impairment losses on trade receivables are not presented separately in the income statement due to materiality considerations.

Classification and measurement of financial assets and liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial liabilities are classified as measured at amortised cost of FVTPL.

The following table shows the measurement category under IFRS 9 for each class of the Company's assets and financial liabilities:

5 Significant accounting policies (continued)

Financial instruments (continued)

The following table shows the measurement category under IFRS 9 for each class of the Company's assets and financial liabilities:

Financial assets / liabilities	Classification under IFRS 9
Financial assets	
Trade and other receivables	Amortised cost
Cash and cash equivalents	Amortised cost
Financial liabilities	
Trade payables	Other financial liabilities

Initial recognition

Financial assets (unless it is a trade receivable without a significant financing component) and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (except those at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. A trade receivable without a significant financing component is initially measured at the transaction price.

Subsequent measurement - financial assets

Financial assets at amortised cost are subsequently measured at amortised cost reduced by impairment losses.

Subsequent measurement - financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

5 Significant accounting policies (continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

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.

Financial liabilities and eauitv instruments

Provisions

A provision is recognised if as a result of a past event the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that the company will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

6 Critical judgements and estimations

The Company applies judgement in how it applies its accounting policies which could materially affect the numbers disclosed in the financial statements. The judgement made in applying accounting policies that has the most significant effects on the amount recognised in the financial statements relates to lessee accounting under IFRS 16, which is described in Note 5.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge and experience, actual results ultimately may differ from those estimates. The directors consider the following to be the key estimates applicable to the financial statements, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year or in the long-term.

i) 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. The directors have also made assumptions about the fair value of properties. Whilst the directors consider these assumptions are realistic should these assumptions regarding profitability and property values be unfounded then it is possible that goodwill and other assets included in the balance sheet could be impaired.

ii) Pension benefits

The Group operates a defined benefit scheme as at 31 December 2019. The obligation under the defined benefit scheme is recognised in the balance sheet and represents the present value of the obligations calculated by independent actuaries, with input from management. The actuarial valuation includes assumptions such as discount rates, annual rates of return and mortality rates. These assumptions vary from time to time according to prevailing economic conditions. Details of the assumptions used for the year ended 31 December 2019 are included in note 29.

iii) Provisions

In calculating provisions, the directors have made certain assumptions concerning the calculation of the future liability. Whilst the directors consider these assumptions are realistic should these assumptions be incorrect the provisions could be under or over stated. Details of the provisions are in note 25.

7 Revenue

Revenue is the value of goods and related services invoiced, less trade discount recognised in accordance with the Company's accounting policy on revenue. In general this occurs when vehicles or parts have been supplied or when a service has been completed. Sales of used vehicles to the trade, inter-dealership sales within the Company and value added tax are excluded. All revenue is derived from the United Kingdom and from the business of operating motor dealerships.

	2019	2018
	£'000	£'000
Revenue from Contracts with Customers	192,342	173,196

Disaggregation of revenue from contracts with customers

In the following tables, revenue from contracts with customers is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition.

	2019	2018
Timing of revenue recognition	**£'000**	£'000
Products transferred at a point in time	191,302	172,367
Products and services transferred over time	1,040	829
	192,342	173,196

	2019	2018
	£'000	£'000
Primary geographic markets		
East Midlands	192,342	173,196

Major products and service lines	**2019**	2018
	£'000	£'000
New	114,325	108,037
Used	56,059	46,067
Aftersales	18,729	16,558
Other	3,229	2,534
	192,342	173,196

The following table provides information about receivables and contract liabilities from contracts with customers:

7 Revenue *(continued)*

	2019 £'000	2018 £'000
Receivables which are included in		
Trade and other receivables	2,776	2,603
Contract liabilities	1,371	1,278

The contract liabilities primarily relate to the advance consideration received from customers for warranty and service plans for which revenue is recognised over time.

The amount of £1,015,000 (2018: £448,000) recognised in contract liabilities at the beginning of the period has been recognised as revenue for the period ended 31 December 2019.

The amount of revenue recognised in the period ended 31 December 2019 from performance obligations satisfied (or partially satisfied) in previous periods is £Nil (2018 : £Nil).

Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognises revenue when it transfers control over a good or service to a customer.

8 Operating expenses

	2019 £'000	2018 £'000
Wages and salaries	10,291	9,945
Auditor's remuneration	33	33
Depreciation on property plant and equipment	329	310
Loss on disposal of plant and equipment	4	50
Operating lease rentals - property (IAS 17)	-	321
Operating lease rentals - other (IAS 17)	-	825
Depreciation on right of use assets - property	159	-
Depreciation on right of use assets - motor vehicles	285	-
Expenses relating to short term leases	526	-
Impairment credit on trade receivables	9	(3)
Other expenses	8,949	7,805
	20,585	19,286

9 Personnel expenses

	2019 £'000	2018 £'000
Wages and salaries	11,303	10,767
Social security contributions	1,078	1,013
Cost of defined benefit pension plan	74	74
Contributions to defined contribution plans	240	179
	12,695	12,033

9 Personnel expenses (continued)

Employee benefit expense included in:	**2019**	2018
	£'000	£'000
Operating expenses	10,291	9,945
Cost of sales	2,404	2,088
	12,695	12,033

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

	2019	2018
	Number	Number
Management, sales, technicians and support	409	406

Directors' remuneration	**2019**	2018
	£'000	£'000
Emoluments from qualifying services	-	-
Social security contributions	-	-
Payments to personal pension schemes	-	-
	-	-

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

	2019	2018
	£'000	£'000
Emoluments from qualifying services	-	-
Payments to personal pension schemes	-	-
	-	-

The number of directors accruing retirement benefits was as follows:

	2019	2018
	Number	Number
	-	-

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

The Company has received services to the value of £400,000 (2018: £400,000) relating to Directors who are paid by fellow subsidiaries.

10 Exceptional items

Exceptional income	2019 £'000	2018 £'000
Release of provision for historic VAT issues	28	-
Release of provision for closure of business	34	-
	62	-

Exceptional costs	2019 £'000	2019 £'000
Provision for historic VAT issues	-	54
Reorganisation costs	-	92
Closure of business	-	129
Past service cost in respect of pension obligations	-	316
	-	591

The Group has been in negotiation with HMRC in connection with historic VAT issues regarding the supply of vehicles from Motability. HMRC have issued revised guidance. As a result, £28,000 of the reserve created in 2018 has been released this year

The closure of Dronfield during 2018 resulted in costs and a property provision which is disclosed in note 25. In 2019 the property was leased to a third party sooner than anticipated resulting in a partial release of the provision.

11 Finance costs

	2019 £'000	2018 £'000
Vehicle financing interest	237	208
Other loans	(300)	(113)
Interest on lease liabilities	72	-
Other finance costs (pension scheme)	33	22
	42	117

12 Income tax expense

Recognised in the income statement

	2019 £'000	2018 £'000
Current tax expense		
Current year (origination and reversal of timing differences)	128	-
Adjustments for prior years	-	-
Total current tax expense	128	0
Deferred tax expense		
Current year	(3)	(37)
Adjustments for prior years	-	-
Total deferred tax expense	(3)	(37)
Total income tax charge in the income statement	125	(37)

12 Income tax expense (continued)

Recognised in other comprehensive income

	2019 £'000	2018 £'000
Deferred tax on actuarial (gain) / loss	80	4
	80	4

Reconciliation of effective tax rate

	2019 %	2019 £'000	2018 %	2018 £'000
Profit before tax		1,027		376
Income tax using the domestic corporation tax rate	19.0%	195	19.0%	71
Non-deductible expenses	0.2%	2	19.1%	72
Capital allowances in deficit of depreciation	(1.3%)	(14)	(7.2%)	(27)
Other timing differences	0.0%	-	0.0%	-
Transfer pricing	6.1%	63	21.0%	79
Group relief	(11.6%)	(119)	(51.9%)	(195)
Change in tax rate	(3.8%)	(39)	0.0%	-
Adjustments for prior years tax	0.0%	-	0.0%	-
Other adjustments for deferred tax	3.6%	37	(9.8%)	(37)
	12.2%	125	(9.8%)	(37)

Deferred tax recognised directly in equity

	2019 £'000	2018 £'000
Relating to property lease spreading adjustment on transition to IFRS 16	(45)	-
	(45)	-

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 19% to 17% (effective 1 April 2020) were substatively enacted on 6 September 2016. It was announced in the Government's Spring 2020 Budget that the reduction from 19% to 17% will not go ahead and the CT rate will remain at 19%. The directors have therefore decided to account for deferred tax in these statements at a rate of 19%.

13 Current tax liabilities

The current tax liability of £128,000 (2018: £Nil) represents the amount of income taxes payable in respect of the current period less payments on account.

14 Property, plant and equipment

2019	Short leasehold £'000	Plant and equipment £'000	Total £'000
Cost			
Balance at 1 January 2019	174	4,471	4,645
Additions	-	258	258
Disposals	-	(790)	(790)
Intergroup transfers - disposals	-	(1)	(1)
Balance at 31 December 2019	174	3,938	4,112
Depreciation and impairment losses			
Balance at 1 January 2019	77	2,830	2,907
Depreciation charge for the year	6	323	329
Disposals	-	(778)	(778)
Intergroup transfers - disposals	-	(1)	(1)
Balance at 31 December 2019	83	2,374	2,457
Carrying amounts			
At 31 December 2019	91	1,564	1,655

2018	Short leasehold £'000	Plant and equipment £'000	Total £'000
Cost			
Balance at 1 January 2018	174	4,235	4,409
Additions	-	1,199	1,199
Disposals	-	(963)	(963)
Balance at 31 December 2018	174	4,471	4,645
Depreciation and impairment losses			
Balance at 1 January 2018	70	3,439	3,509
Depreciation charge for the year	7	303	310
Disposals	-	(912)	(912)
Balance at 31 December 2018	77	2,830	2,907
Carrying amounts			
At 31 December 2018	97	1,641	1,738

Security

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

15 Right of use assets

The Company leases many assets including property and vehicles. Information about leases for which the Company is a lessee are presented below.

	Property £'000	Vehicles £'000	Total £'000
Balance at 1 January 2019	1,451	-	1,451
Additions	-	1,599	1,599
Sub-Let property transferred to Debtors	(139)	-	(139)
Depreciation charge for the year	(159)	(285)	(444)
Balance at 31 December 2019	1,153	1,314	2,467

Property leases

The Company leases land and buildings for its retail dealerships. The leases typically run for a period of 10 years.

As a lessor

The Company leases out one property which is surplus to its operational requirements. The lease of this property substantially transfers all the risks and rewards incidental to the ownership to the lesee. Accordingly the right of use asset for this property has been derecognised and the net investment in the finance sublease is recognised. The difference between the value of the right-of-use asset and the net investment in the sublease is recognised in the income statement.

16 Investments

	2019 £'000	2018 £'000
Cost and net book value		
Balance at 1 January	147	147
Provision	(147)	(147)
	-	-

During 2017 the Company provided against its investments in subsidiary companies.

The subsidiaries of the Company at 31 December 2019 are as follows:-

Subsidiary **2019 and 2018**	**Aggregate Capital and Reserves £**	**Nature of Business**
PEM County Garage Company Limited	-	Dormant
PEM (1931) Limited	-	Dormant
PEM Southern Limited	-	Dormant
PEM G. Marshall (Holdings) Limited	-	Dormant
PEM 2000 Limited	208,548	Property
PEM Northern Limited	-	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.

17 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Accelerated capital allowances	(112)	(114)	-	-	(112)	(114)
Other short term timing differences	(7)	(2)	-	-	(7)	(2)
IFRS 16	(45)	-	-	-	(45)	-
Tax (assets)/liabilities	(164)	(116)	-	-	(164)	(116)

17 Deferred tax assets and liabilities (continued)

Movement in temporary differences during the year

	Balance 1 January 2019 £'000	Recognised in income £'000	Recognised in equity £'000	Balance 31 December 2019 £'000
Accelerated capital allowances	(114)	2	-	(112)
Other short term timing differences	(2)	(5)	-	(7)
IFRS 16	-	-	(45)	(45)
	(116)	(3)	(45)	(164)

	Balance 1 January 2018 £'000	Recognised in income £'000	Recognised in equity £'000	Balance 31 December 2018 £'000
Accelerated capital allowances	(131)	17	-	(114)
Other short term timing differences	(2)		-	(2)
	(133)	17	-	(116)

The Company has remeasured its deferred tax liability at the end of the reporting period at 19% (2018: 17%). The level of deferred tax is not expected to change significantly in the next year.

18 Inventories

	2019 £'000	2018 £'000
Vehicles (new, used and demonstrator)	60,139	54,857
Parts and Sundry stocks	997	850
	61,136	55,707

Inventories are shown net of impairment provisions amounting to £48,000 (2018: £64,000). Impairment losses excludes vehicle write downs to net realisable values which are deducted from gross goods for resale. There is no difference between the carrying value of inventories and their replacement cost.

The cost of inventories recognised as an expense was £168,346,000 (2018: £158,365,000).

Inventories are pledged as security for the vehicle financing (note 23).

19 Trade and other receivables

	2019	2018
	£'000	£'000
Trade receivables	2,776	2,603
Sub-Let Right of Use Asset	132	-
Other receivables	2,301	3,042
Prepayments	428	468
	5,637	6,113

Trade receivables are shown net of impairment losses amounting to £12,000 (2018: £Nil). 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

	2019	2018
	£'000	£'000
Balance at the beginning of the period	-	6
Charge to income statement	9	(3)
Written off as uncollectable	3	(3)
	12	-

Included in the Company's trade receivable balance are debtors with a carrying value of £98,000 (2018: £147,000) 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.

18 Trade and other receivables (continued)

Ageing of past due but not impaired receivables	**2019 £'000**	2018 £'000
30 to 60 days	67	134
60 to 90 days	2	1
Over 90 days	29	12
	98	147

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.

The Company writes off a debt when it considers the borrower is unlikely to pay its credit obligations in full after all reasonable actions have been taken to recover the debt.

20 Capital and reserves

Share capital	**2019 £'000**	2018 £'000
Issued and fully paid		
936,134 Ordinary A shares of £1 each	936	936

21 Interest bearing loans and borrowings

The Company has no interest bearing loans and borrowings.

22 Lease liabilities

Maturity analysis - contractual undiscounted cash flows

	2019 £'000
Less than one year	1,028
One to five years	1,166
More than five years	1,067
Total undiscounted lease liabilities at 31 December	3,261
Lease liabilities included in the balance sheet at 31 December	2,853
Current	949
Non-current	1,904

23 Trade and other payables

	2019 £'000	2018 £'000
Non-current liabilities		
Vehicle financing	11,391	9,858
Current liabilities		
Trade payables	60,699	55,700
Social security and other taxes	367	354
Accruals	1,322	931
Deferred income	434	282
Other payables	195	346
	63,017	57,613

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.

Vehicle financing loans are secured on the vehicles to which they relate and bear interest related to finance house base rates.

24 Contract liabilities

	2019 £'000	2018 £'000
Warranty	235	235
Service plans	453	407
Customer deposits	683	636
	1,371	1,278

25 Provisions

	Property £'000	VAT £'000	Total £'000
Balance at 1 January 2019	76	54	130
Provisions made during the year	5	-	5
Release of provision to exceptional income	(34)	(28)	(62)
Provisions used during the year	(14)	-	(14)
Balance at 31 December 2019	33	26	59
Non-current	28	26	54
Current	5	-	5
	33	26	59

VAT assessment

The Company has been in negotiation with HMRC in connection with historic VAT issues regarding the supply of vehicles from Motability, As a result, £28,000 of the reserve created in 2018 has been released this year

26 Capital commitments

Future capital expenditure authorised is as follows:

	2019 £'000	2018 £'000
Contracted for but not provided in the financial statements	-	-

27 Related parties

Transactions and balances with group companies

During the year the Company sold £3,576,000 (2018: £2,750,000) and purchased £1,729,000 (2018: £1,569,000) of goods from Perrys Motor Sales Limited, a fellow subsidiary of Perrys Group Limited.

The Company also purchased services such as marketing from Perrys Motor Sales Limited and during the year £1,571,000 (2018: £1,850,000) was recharged. The Company also purchased management services from Perrys Motor Sales Limited and during the year £400,000 (2018: £400,000) was charged for these services.

The Company informally rents dealerships from its subsidiary, PEM 2000 Limited. During the year the rent payable by the Company was £1,222,000 (2018 : £1,110,000).

During the year the Company provided funds to Perrys Motor Sales Limited at a commercial interest rate. During the year £300,000, (2018: £119,000) in interest was charged. At the year end there was a balance of £10,090,000 (2018: £7,000,000) of advances which were interest bearing.

At the year end the Company had a net trading balance receivable from Perrys Motor Sales Limited of £9,907,000 (2018: £7,064,000). The Company also had a balance receivable from PEM 2000 (its subsidiary) of £13,200,000 (2018: £13,841,000). These intercompany balances are repayable on demand and classed as current. With the exception of the balances stated above they are not interest bearing.

Transactions with key management personnel

Key management personnel are considered to be the directors. Some key management personnel hold positions in other companies that result in them having control or significant influence over those companies. Some of these companies transacted with the Company during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related companies on an arms length basis.

Mr R Ingram, a director of the Company was also a consultant at Hewitsons Solicitors until July 2018. The Company purchased legal services from Hewitsons amounting to £9,385 in 2018.

28 Ultimate Parent Company and Control of the Company

The Company is a wholly owned subsidiary of Perrys Group Limited which is 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.

29 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 119 past employees as at 5 April 2016. 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 preliminary actuarial valuation was carried out as at 5 April 2019 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.

The actuarial valuation at April 2016 showed a deficit of £1,021,000. The Company has agreed with the trustees that it will aim to eliminate the deficit over a period of 5 years and 4 months from 5 April 2017 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 meet expenses of the plan and levies to the Pension Protection Fund.

For the purposes of IAS 19 the preliminary results of the actuarial valuation as at 5 April 2019, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2019. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

Amounts Included in Balance sheet

	31 Dec 2019 £'000	31 Dec 2018 £'000
Fair value of plan assets	8,129	7,171
Present value of defined benefit obligation	(8,842)	(8,434)
(Deficit) in scheme	(713)	(1,263)
Deferred tax	135	215
Net (liability) to be recognised	(578)	(1,048)

29 Retirement benefit obligations (continued)

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. The average weighted duration of the scheme's liabilities at 31 December 2019 is 14 years.

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 Company has 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 2019.

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

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Defined benefit obligation at start of year	8,434	8,813
Current service cost	-	-
Interest expense	222	205
Actuarial (gains) due to scheme experience	(169)	-
Actuarial losses / (gains) due to changes in demographic assumptions	52	(49)
Actuarial losses / (gains) due to changes in financial assumptions	734	(345)
Benefits paid and death in service premiums	(431)	(506)
Past service costs - impact of GMP equalisation	-	316
Defined benefit obligation at end of year	8,842	8,434

29 Retirement benefit obligations (continued)

On 26 October 2018, a landmark pensions case was handed down by the High Court, which has confirmed that pension schemes are required to equalise Guaranteed Minimum Pensions (GMP). The cost of equalising GMP's was estimated to be £316,000 and this was recognised as a past service cost via the income statement in 2018. There are no changes in the expected GMP and no further charge is required in 2019.

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

The allowance has been estimated based on average impacts for schemes with similar service periods and benefit structures.

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

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Fair value of plan assets at start of the year	7,171	7,845
Interest income	189	183
Return on plan assets (excluding amounts included in interest income)	1,119	(425)
Contributions by the Company	74	74
Benefits paid and death in service premiums	(424)	(506)
Fair value of plan assets at the end of the year	8,129	7,171

The actual return on plan assets over the period ended 31 December 2019 was £1,308,000 (2018: (£242,000)).

29 Retirement benefit obligations (continued)

Defined benefit costs recognised in the income statement

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Past service cost	-	316
Expenses / (Receipts)	(7)	-
Net interest cost	33	22
Defined benefit costs recognised in the income statement	**26**	**338**

Defined benefit costs recognised in other comprehensive income

	Year ended 31 Dec 2019 £'000	Year ended 31 Dec 2018 £'000
Return on plan assets (excluding amounts included in net interest cost) gain / (loss)	1,119	(425)
Experience gains arising on the defined benefit obligation.	169	-
Effects of changes in the demographic assumptions underlying the present value of the defined benefit obligation - (loss) / gain	(52)	49
Effects of changes in the financial assumptions underlying the present value of the defined benefit obligation - (loss) / gain	(734)	345
Total amount recognised in other comprehensive income - gain / (loss)	**502**	**(31)**

29 Retirement benefit obligations (continued)

Assets

	31 Dec 2019 £'000	31 Dec 2018 £'000
UK Equities	127	106
Overseas Equities	2,741	2,264
Corporate Bonds	731	622
Diversified Growth Funds	2,031	1,723
Cash	70	92
Real LDI	286	393
Normal LDI	1,400	1,326
Absolute Return Bonds	743	645
Total assets	8,129	7,171

None of the fair values of the assets shown above include any direct investments in the Company's own financial instruments or any property occupied by, or other assets used by, the Company. All of the scheme assets have a quoted market price in an active market with the exception of the Trustees' bank account balance. There are no additional assets pledged, and no additional arrangements agreed between the company and Trustees to secure members' benefits under the Scheme.

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

The scheme holds Liability Driven Investments which currently aim to hedge a substantial amount of the interest and inflation rate risk on the trustees' funding basis.

29 Retirement benefit obligations (continued)

Significant actuarial assumptions

	31 Dec 2019 % per annum	31 Dec 2018 % per annum
Discount Rate	2.00	2.70
Inflation (RPI)	3.25	3.45
Inflation (CPI)	2.05	2.25
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.05	2.25
Allowance for revaluation of deferred pensions of CPI or 3% p.a. if less	1.80	1.90
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less, minimum 3% p.a.	3.30	3.40
Allowance for commutation of pension for cash at retirement	100% of Post A Day	

The mortality assumptions adopted at 31 December 2019 are 108% of S2PAxA for males and females, projected using CMI_2018 S=7.5 converging to 2.00% p.a. These imply the following life expectancies:

	Life expectancy at age 65 (Years)
Male retiring in 2019	21.0
Female retiring in 2019	22.9
Male retiring in 2039	22.1
Female retiring in 2039	24.1

29 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 3.5%
Rate of inflation	Increase 0.25% p.a.	Decrease by 0.9%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 3.5%

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 2019 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 to the scheme's liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in future P&L accounts. This effect would be partially offset by an increase in the value of the scheme's LDI and 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 scheme for the year commencing 1 January 2020 is £74,000.