SC036386

Arnold Clark Automobiles Limited
Report & Financial Statements

31 December 2010

Directors, Principal Officers and Advisers

Directors	Sir Arnold Clark DUniv FIMI - Chairman and Chief Executive
	E Hawthorne BA CA - Group Managing Director
	K J McLean B Acc (Hons) CA - Group Finance Director
	S Willis - Group Sales Director
	Lady Clark MA (Glasgow) - Director
	H D Wallace - Director
	D F Kerr MA (Cantab) - Director & Company Secretary
	W G P Gall FIMI - Director
Subsidiary Company Directors	D M Cooper B Acc (Hons) FCCA - Director (Arnold Clark Finance Limited)
Principal Officers	A D Brown BA (Hons) CA - Financial Controller
	S J MacAulay MIMI - Group Parts Manager
	W J Stoddart - Group Bodyshop Manager
	A M Hutton MIMI - Group Service Manager
	S Ashforth BA (Hons) - Group Marketing Manager
	S K Thorpe BA (Hons) FCA - Group Financial Accountant
Registered Office	134 Nithsdale Drive, Glasgow G41 2PP
Principal Bankers	The Royal Bank of Scotland plc, 1304 Duke Street, Glasgow G31 5PZ
Auditors	Ernst & Young LLP, 50 George Square, Glasgow G2 1RR
Tax Advisers	Grant Thornton UK LLP, 95 Bothwell Street, Glasgow G2 7JZ
VAT Advisers	Deloitte LLP, 1 City Square, Leeds LS1 2AL

Chairman's Statement

Trading and results

It is with great pleasure that I present another excellent set of results for the group. Turnover has increased to £2,271m which represents an increase of 6.1% on 2009. Although the turnover from sites acquired at the end of 2009 and during 2010 account for a significant proportion of this increase, it is pleasing to note that like for like sales grew by 2.6% in difficult economic conditions. This growth is particularly pleasing given that we lost a large portion of two trading months to the unusually heavy snowfalls experienced. The heavy snow and freezing weather in January coincided with our annual Real Sale event and resulted in a poor start to the year. Arctic conditions returned in December leaving many of our branches, particularly those in Northern and Eastern Scotland, under several inches of snow for at least two weeks and effectively unable to trade during that period.

As I mentioned in my statement last year, 2009 was an exceptionally strong trading year due to a number of factors and I noted that 2010 would not continue in the same vein. On 1 January 2010, VAT returned to 17.5% and the scrappage scheme, which had accounted for almost 15% of the new car market, came to an end in March. As anticipated, used car values returned to a more typical pattern during 2010 and, although residual values remained relatively strong, vehicle margins declined from the highs of 2009. These factors resulted in group operating profit before amortisation of goodwill falling back from £84.8m to £60.5m.

Arnold Clark Finance, our vehicle management and daily rental business, has had a very strong year. Turnover increased by 9.1% to £155m and pre tax profit increased to £8.0m as a result of continued low interest rates and strong residual values.

Acquisitions and refurbishment

The directors have deliberately pursued a strategy of cautious growth in 2010 due to the uncertain economic outlook and inflated valuations being placed on available commercial property. Throughout the year, we added to our sites through a mixture of acquisitions and new developments, which are outlined below:

January saw the acquisition of a nine acre parcel of land in a prime location on the A1 south of Gateshead, Tyne and Wear. Once operational, this site will complement our existing representation in the Newcastle upon Tyne area.

In March, redevelopment work at our dealership in Ashton-in-Makerfield was completed, adding a new Fiat sales and service operation to the existing Motorstore. In May we acquired a Citroen and Hyundai dealership in Stirling, taking the number of franchises represented in the city to eight. In the same month, work was completed on a purpose-built commercial vehicle centre in Newcastle upon Tyne, which allowed us to surrender the lease for the existing site. In April, our Accrington Motorstore was closed as a retail sales outlet and the facility has been converted to a transport hub and vehicle storage compound.

In June, we acquired a four acre site at Phoenix Retail Park, Linwood near Glasgow. The site is adjacent to our seven existing dealerships and will be redeveloped as a dual franchise facility once plans have been agreed. The following month also saw the opening of a new Renault showroom in Edinburgh which is adjacent to our existing Peugeot and Seat dealerships.

At the end of October, we relinquished our loss-making Manchester and Stockport Honda leasehold dealerships and converted our Altrincham Honda dealership to represent the Kia franchise. Land adjacent to Glasgow Airport was also acquired for future development.

In November, the purchase of the entire share capital of Delmore Cars Limited was completed and the trade and assets were immediately hived up into Arnold Clark Automobiles Limited. Delmore Cars operated a single Skoda dealership in Inverness and the acquisition added the Skoda franchise to the list of marques represented by the company.

Chairman's Statement

The number of Skoda sites was then doubled shortly after when we opened a new facility in the Seafield area of Edinburgh in December. We also took the opportunity to purchase a one acre site on the Inverness "Motor Mile" for future development.

Despite the freezing weather, December proved to be a busy month for dealership improvements. We opened a new Hyundai showroom in Dundee and relocated our Dundee Nissan franchise into a new purpose-built facility in the city. In the same month, an existing site in Sefton Street, Liverpool was converted to accommodate the Kia franchise and a Fiat outlet was added to our dealership in Salford, Manchester.

Since the year end, we have further added to the group with the acquisition of a Vauxhall dealership in Stoke on Trent.

As well as the additions outlined above, we continued to make significant investments in our existing showrooms with Liverpool Motorstore undergoing a major redevelopment, as did our Motorstore in the Sighthill area of Edinburgh. Facilities at Inverness Peugeot, Elgin Fiat, Workington Ford and our Peugeot, Citroen and Ford site in Dumfries all underwent major refurbishments in the year.

Commitment to Training

As a major employer in both Scotland and the UK as a whole, the group underlined our commitment to training and job creation by employing 130 Modern Apprentices. Modern Apprenticeships are an invaluable way of gaining work experience and a recognised qualification for young people. As well as the benefits for the individual, this route is a proven way to train our workforce to a nationally recognised high standard and makes the organisation more productive which is of critical importance in these challenging times. Within the 130 recruits are 13 youngsters participating in the "Get into Cars" programme. This initiative, in conjunction with The Prince's Trust Scotland, allows youngsters who did not attain the necessary educational entry requirements whilst at secondary school to gain accreditation through a different route. This is a sound investment in the future prosperity of the group and this programme will continue in 2011.

Future prospects

It is difficult to predict with any great certainty what 2011 will bring. The Government announced the results of its Spending Review in October 2010 but the planned spending cuts have yet to be effected in many cases and, consequently, there is still a good deal of uncertainty as to what these cuts will mean in terms of redundancies in the public sector. Economic growth remains sluggish with the aforementioned snow in December being blamed for the UK economy contracting in the fourth quarter of 2010. Additionally, on 4 January 2011, the VAT rate rose to 20% which will inevitably have an impact on large value purchases such as motor cars. Despite these factors, the group remains exceptionally well funded, allowing us to source the best available stock opportunities and ensure that we offer our customers the best possible value in these difficult times. We will also be able to take advantage of any suitable expansion opportunities that may arise in the coming year. I look forward to reporting on another successful year in our next annual report.

Sir Arnold Clark
Chairman
14 March 2011

Directors' Report

The directors present their report and the group financial statements for the year ended 31 December 2010.

Results and dividends

The profit on ordinary activities before taxation amounted to £50,547,000. The profit for the year, after taxation, amounted to £35,809,000.

An ordinary interim dividend of £1,799,000 was paid. The directors recommend that no final dividend be paid, which leaves a profit of £34,010,000 to be retained. The Chairman waived his right to a dividend.

The group's principal activities during the year were the hiring, selling and servicing of motor vehicles.

The group balance sheet discloses net current liabilities of £97m arising primarily as a result of hire purchase payments due on contract hire vehicles. These payments will be met from vehicle rental income receivable in the future under the relevant contract hire agreements.

The group's key financial and other performance indicators during the year were as follows:

	2010	**2009**	**Change**
Group turnover	£2,271m	£2,139m	6.1%
New car sales (units)	77,626	75,390	3.0%
Used car sales (units)	116,338	118,817	(2.1%)
Group operating profit before amortisation of goodwill and exceptional items	£60.5m	£84.8m	(28.6%)

Whilst new car sales are up 3% on 2009, it has been a mixed picture during the year due to the cessation of the scrappage scheme in March. Retail sales increased by 4.5% overall and this is primarily due to the growth of the group rather than an increase in market share as like for like sales remain largely static. Fleet sales have once again been affected by the wider economic conditions and have fallen 2.5% year on year.

The exceptionally heavy snowfalls in January 2010 resulted in estimated UK car sales falling by 17% compared to January 2009. This, unfortunately, coincided with our annual Real Sale event and consequently the rest of the year was spent trying to recover the shortfall. These efforts were hampered by further heavy snowfalls in December 2010 although, as December is a much quieter month in the retail motor trade, the impact was much less severe than it was in January. Used car sales were down 2.1% which is in line with the decrease across the wider UK market.

Turnover has increased as a result of the increase in new car sales and on the back of organic growth at our contract hire business.

2009 profits were noted at the time as being exceptional with used car values having appreciated month on month for 9 of the 12 months. Used car values have followed more normal patterns during 2010 and, therefore, profit margins have decreased accordingly.

2011 will be a difficult year for the UK motor trade and there is a great deal of uncertainty as to exactly how much of an impact the VAT rate rise, new vehicle supply issues, the availability of used cars, the public sector spending review and the lack of consumer confidence will have on sales. Despite this uncertainty in the marketplace, 2011 has started reasonably well and the Board anticipates that turnover will increase in the current year with profitability at similar levels to 2010.

A further review of the business is provided in the Chairman's Statement on pages 2 and 3.

Directors' Report

Market value of land and buildings

The group now has an extensive portfolio of properties throughout the UK. The directors are conscious that the group's properties represent an important and valuable asset and consider that the open market value of the group's land and buildings is in excess of £272m.

Principal risks and uncertainties

The group's principal financial instruments comprise cash, cash equivalents, bank loans and hire purchase contracts. Other financial assets and liabilities, such as trade creditors and trade debtors, arise directly from operating activities.

The main risks associated with the group's financial assets and liabilities are set out below.

Interest rate risk: The group invests surplus cash in a floating rate interest yielding bank deposit account and in short and medium term certificates of deposit. The group also has access to a floating rate interest bearing revolving credit facility. Hire purchase agreements and term loans are entered into at floating interest rates. The group's interest income and expenses are therefore affected by movements in interest rates. The group does not undertake active hedging of this risk.

Credit risk: The group has external debtors; however, the group undertakes assessments of its customers in order to ensure that credit is not extended where there is a likelihood of default.

Liquidity risk: The group aims to mitigate liquidity risk by managing cash generated by its operations.

Price risk: The group holds investments in the form of equity shares in publicly listed companies in the UK and certain other publicly tradeable investments. The group does not undertake active hedging of the market price risk associated with these investments, however the investments are all actively managed by investment management companies on behalf of the group.

General economic conditions: The group's performance is influenced by general economic conditions, consumer confidence and credit availability. The much publicised issues in the financial service sector have impacted on the availability of credit to our retail sales customers and this has, in turn, affected our retail sales. Further restrictions on the availability of retail credit could adversely impact the group. Consumer confidence in the UK remains fragile as a result of the wider economic conditions and therefore discretionary expenditure has been reduced by many customers. This may impact the number and type of vehicles that will be sold in the year.

Manufacturers: Many of our dealerships operate under franchise agreements with automotive manufacturers. We are dependent on the various manufacturers because, without a franchise agreement, we cannot operate a new vehicle franchise or perform manufacturer warranty services and, consequently, manufacturers exercise a degree of control of the operations of our franchised dealerships. Our franchise agreement may be terminated or not renewed by manufacturers for a variety of reasons. The success of the group also depends to a degree upon the reputation of the various manufacturers, particularly in relation to the marketing, design and build-quality of their products. A significant deterioration in the reputation of any of the major manufacturers may have an impact on the performance of the group.

Employee involvement

Regular meetings are held between management and employees to allow a free flow of information and exchange of ideas.

Disabled employees

The group gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a disabled person.

With regard to existing employees and those who have become disabled during the year, the group has continued to examine ways and means of providing continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate.

Health and safety

The company has continued its membership of the British Safety Council and once again obtained a five star award from that organisation. As was indicated in last year's report, we made a further application for the coveted Sword of Honour from the same organisation and were delighted to be successful on this occasion. All credit is due to our group health and safety team and to the staff at our Alexandra Parade branch, who all made this possible.

We continued to invest considerable resources in the ongoing professional training and development of our group health and safety managers, which ensures that our directors and staff have access to the best advice available.

The accuracy of accident reporting has continued to improve and all accidents and near misses are investigated fully. These investigations can help us to identify shortcomings in our systems, which can then be rectified.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant information and to establish that the company's auditors are aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the board

E Hawthorne
Managing Director
14 March 2011

Statement Of Directors' Responsibilities

in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditors' Report

to the members of Arnold Clark Automobiles Limited

We have audited the financial statements of Arnold Clark Automobiles Limited for the year ended 31 December 2010 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of Directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's 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 requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

James Andrew Bishop (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP
Statutory Auditor
Glasgow
14 March 2011

Group Profit & Loss Account
for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Turnover	2	2,270,808	2,139,467
Cost of sales		(1,926,072)	(1,779,530)
Gross profit		344,736	359,937
Administrative and distribution expenses		(289,545)	(279,656)
		55,191	80,281
Other operating income		3,241	2,388
Operating profit	3	58,432	82,669
Analysed as:			
Operating profit before exceptional items and amortisation of goodwill		60,506	84,761
Amortisation of goodwill		(2,074)	(2,092)
Income from listed investments		67	65
Bank interest receivable		461	358
Other interest receivable		3	138
Interest payable	6	(8,416)	(9,352)
Profit on ordinary activities before taxation		50,547	73,878
Tax on profit on ordinary activities	7	(14,738)	(22,239)
Profit on ordinary activities after taxation	19	35,809	51,639

All operations were classed as continuing operations during the year.

Group statement of total recognised gains and losses

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £35,809,000 in the year ended 31 December 2010 and the profit of £51,639,000 in the year ended 31 December 2009.

Group Balance Sheet

at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Goodwill	8	2,451	4,418
Negative goodwill	8	(1,168)	(1,185)
		1,283	3,233
Tangible assets	9	656,558	622,068
Investments	10	82,021	50,348
		739,862	675,649
Current assets			
Stocks	11	229,700	286,864
Debtors	12	64,751	79,436
Cash at bank and in hand		73,639	19,450
		368,090	385,750
Creditors: amounts falling due within one year	13	(464,708)	(465,963)
Net current liabilities		(96,618)	(80,213)
Total assets less current liabilities		643,244	595,436
Creditors: amounts falling due after more than one year	14	(163,920)	(149,116)
Provisions for liabilities and charges	17	(32,041)	(33,047)
Net assets		447,283	413,273
Capital and reserves			
Called up share capital	18	999	999
Capital redemption reserve	19	1	1
Capital reserve	19	612	612
Profit and loss account	19	445,671	411,661
Equity shareholders' funds	20	447,283	413,273

Approved by the Board on 14 March 2011

Sir Arnold Clark
Chairman

E Hawthorne
Managing Director

Registered Number: 36386 (Scotland)

Company Balance Sheet
at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Goodwill	8	2,315	3,527
Tangible assets	9	255,264	232,062
Investments	10	65,604	49,087
		323,183	284,676
Current assets			
Stocks	11	203,616	257,023
Debtors	12	45,359	57,711
Cash at bank and in hand		43,976	-
		292,951	314,734
Creditors: amounts falling due within one year	13	(238,867)	(245,659)
Net current assets		54,084	69,075
Total assets less current liabilities		377,267	353,751
Creditors: amounts falling due after more than one year	14	(169)	(173)
Provisions for liabilities and charges	17	(13,622)	(12,888)
Net assets		363,476	340,690
Capital and reserves			
Called up share capital	18	999	999
Capital redemption reserve	19	1	1
Capital reserve	19	2,646	2,646
Profit and loss account	19	359,830	337,044
Equity shareholders' funds		363,476	340,690

Approved by the Board on 14 March 2011

Sir Arnold Clark
Chairman

E Hawthorne
Managing Director

Registered Number: 36386 (Scotland)

Group Statement of Cash Flows

for the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Net cash inflow from operating activities	21(a)	247,175	123,313
Returns on investments and servicing of finance			
Interest received		464	496
Income from listed investments		67	65
Interest paid		(1,773)	(2,429)
Interest element of hire purchase contracts		(6,574)	(6,843)
		(7,816)	(8,711)
Taxation paid		(18,719)	(18,092)
Capital expenditure and financial investment			
Payments to acquire fixed assets		(365,787)	(380,297)
Net payments to acquire investments		(32,704)	(6,422)
Receipts from sales of fixed assets		223,092	219,487
Net receipt from disposal of investments		1,031	1,160
		(174,368)	(166,072)
Acquisitions and disposals			
Payments to acquire subsidiary undertakings		(3,146)	-
Net cash acquired with subsidiary undertakings		127	-
		(3,019)	-
Equity dividends paid		(1,799)	(600)
Net cash flow before financing		41,454	(70,162)
Financing			
Repayment of borrowings		(2,255)	(214)
Receipt from new loans		17,657	-
Repayment of capital element of hire purchase contracts		(271,841)	(262,738)
New hire purchase contracts		269,174	306,910
		12,735	43,958
Increase / (decrease) in cash		54,189	(26,204)

Group Statement of Cash Flows
for the year ended 31 December 2010

Reconciliation of net cash flow to movement in net debt

	Notes	2010 £000	2009 £000
Increase / (decrease) in cash		54,189	(26,204)
Repayment of borrowings		2,255	214
Receipts from new loans		(17,657)	-
Repayment of capital element of hire purchase contracts		271,841	262,738
New hire purchase contracts		(269,174)	(306,910)
Change in net debt resulting from cash flows		41,454	(70,162)
Other non-cash movements	21(b)	(2,119)	(136)
Movement in net debt		39,335	(70,298)
Net debt at 1 January	21(b)	(304,644)	(234,346)
Net debt at 31 December	21(b)	(265,309)	(304,644)

Notes to the Financial Statements

for the year ended 31 December 2010

1. Accounting Policies

Basis of preparation

The financial statements are prepared under the historical cost convention, modified to include the revaluation of investment properties.

The financial statements are prepared in accordance with applicable accounting standards. The true and fair override provisions of the Companies Act 2006 have been invoked; see investment properties below.

Basis of consolidation

The group financial statements consolidate the financial statements of the company and subsidiary undertakings made up to a date co-terminous with the financial year of the company. References to "subsidiaries" are to be taken as references to subsidiary undertakings unless otherwise stated. The results of subsidiaries acquired during the year are consolidated from the date of acquisition using the acquisition method of accounting and the results of subsidiaries disposed of are consolidated up to the date of sale.

Certain of the group's activities are conducted through joint arrangements and are included in the consolidated financial statements in proportion to the group's interest in the income, expenses, assets and liabilities of these joint arrangements.

No parent company profit and loss account is published, in accordance with the exemption available under s.408 of the Companies Act 2006; the profit dealt with in the financial statements of the parent company is £24,585,000 (2009 - £47,622,000).

Going concern

The group's business activities, a review of the business and a description of the principal risks and uncertainties, together with the group's financial risk management processes and narrative regarding its exposure to key financial risks are outlined in the Director's Report.

The group funds vehicles purchased for its contract hire fleet using hire purchase contracts from a number of providers. The vehicles are accounted for as fixed assets and a corresponding liability is recognised, an element of which will be classified as a current liability. This gives rise to the group's net current liabilities position at the year end. The directors have reviewed the group's forecasted cash flows and these are sufficient to meet the liabilities as they fall due.

Taking into account the above and after making enquiries, the directors believe that the group has adequate resources to meet its liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Negative goodwill is included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale.

Notes to the Financial Statements
for the year ended 31 December 2010

1. Accounting policies (continued)

Depreciation

Depreciation is provided on all tangible fixed assets, other than investment properties, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset in equal annual installments over its expected useful life, as follows:

Land and buildings	: Freehold	-	2%
	: Leasehold	-	over the lease term
Plant and equipment	: General	-	8.5% to 20%
	: Computer equipment	-	33%
Motor vehicles	: Own use	-	12.5% to 40%
	: Contract hire vehicles	-	over the term of the contract

Investment properties

Certain of the group's properties are held for long term investment. Investment properties are accounted for in accordance with SSAP 19. Investment properties are revalued annually and the surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year.

Although the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 would normally require the systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the financial statements to give a true and fair view, since the current value of investment properties, and changes to the current value, are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which otherwise might have been included cannot be separately identified or quantified.

Stocks

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

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

The directors have considered the terms of the individual manufacturers' consignment stocking agreements with specific reference to those terms which have a significant bearing on the allocation of risks and rewards of ownership between the group and the manufacturer. These terms are the group's ability to return stock to the manufacturer without penalty, the manufacturer's ability to reallocate stocks to third parties and the point in time at which the consideration payable on adoption of the stock is determined. Where, based on this assessment, the directors consider that the substance of the manufacturers' consignment stocking agreements is such that the risks and reward of ownership are substantially transferred to the group, the stocks are recognised on the balance sheet and the corresponding liability to the manufacturer is included within creditors in accordance with Application Note A of FRS 5. In all other circumstances the consignment stocks and corresponding liability are not recognised on the balance sheet and are instead disclosed separately in a note to the financial statements.

1. Accounting policies (continued)

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under leases and hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of the capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Provisions for liabilities

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The effect of the time value of money is not material and therefore the provisions are not discounted.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Pension costs

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Notes to the Financial Statements
for the year ended 31 December 2010

2. Turnover and segmental analysis

Turnover represents the amounts due for goods sold, for services provided and for finance commissions and rentals earned stated net of discounts and value added tax.

Sales of goods are recognised when the goods are delivered, sales of services are recognised when the service has been provided and finance commissions are recognised on delivery of the related vehicles. Rentals receivable on vehicles held for use in operating leases are recognised on a straight line basis over the term of the lease.

The group operates in two principal areas of activity, that of distributing, retailing and servicing of motor vehicles and that of hiring motor vehicles. All activities take place within the United Kingdom.

An analysis of turnover, group profit before tax and net assets by business segment is given below:

		Distributing, retailing and servicing of motor vehicles		Hiring of motor vehicles		Total	
		2010	2009	2010	2009	2010	2009
		£000	£000	£000	£000	£000	£000
Turnover							
	continuing	2,115,600	1,997,327	155,092	142,140	2,270,692	2,139,467
	acquisitions	116	-	-	-	116	-
		2,115,716	1,997,327	155,092	142,140	2,270,808	2,139,467
Profit before taxation							
	continuing	42,585	67,373	8,025	6,505	50,610	73,878
	acquisitions	(63)	-	-	-	(63)	-
		42,522	67,373	8,025	6,505	50,547	73,878
Net assets							
	continuing	409,696	385,214	34,519	28,059	444,215	413,273
	acquisitions	3,068	-	-	-	3,068	-
		412,764	385,214	34,519	28,059	447,283	413,273

3. Operating profit

This is stated after charging / (crediting):

		2010 £000	2009 £000
Auditors' remuneration	- audit services	160	155
	- taxation services	25	23
Depreciation	- owned assets	18,103	17,282
	- assets held under hire purchase contracts	97,495	83,357
Amortisation of goodwill		2,075	2,092
Operating lease rentals	- land and buildings	3,208	3,268
Gain on sale of fixed assets		(1,925)	(2,003)

The auditors' remuneration includes £111,000 in respect of the audit of the company (2009 - £109,000).

4. Staff costs

	2010 £000	2009 £000
Wages and salaries	181,369	174,493
Social security costs	17,297	16,639
Pension costs	736	472
	199,402	191,604

The monthly average number of employees during the year was as follows:

	2010 No.	2009 No.
Office and management	1,564	1,475
Sales	2,136	2,165
Servicing	4,592	4,447
	8,292	8,087

5. Directors' emoluments

	2010 £000	2009 £000
Emoluments	4,304	6,497
Emoluments of the highest paid director	1,729	3,462

6. Interest payable and similar charges

	2010 £000	2009 £000
Bank loans and overdrafts	1	11
Finance charges payable under hire purchase contracts	6,643	6,922
Stocking loans	1,711	2,159
Other	61	260
	8,416	9,352

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2010 £000	2009 £000
Current tax:		
UK corporation tax	16,737	23,080
Adjustments in respect of previous years	(1,002)	(110)
Total current tax (note 7(b))	15,735	22,970
Deferred tax:		
Origination and reversal of timing differences	(852)	(691)
Effect of decreased tax rate on opening liability	(982)	-
Adjustments in respect of previous years	837	(40)
Group deferred tax charge (note 7(c))	(997)	(731)
Tax on profit on ordinary activities	14,738	22,239

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher (2009 - higher) than the standard rate of corporation tax in the UK of 28% (2009 - 28%). The differences are reconciled below:

	2010 £000	2009 £000
Profit on ordinary activities before tax	50,547	73,878
Profit on ordinary activities multiplied by standard rate of corporation tax to the group of 28% (2009 - 28%)	14,153	20,686
Expenses not deductible for tax purposes	1,731	2,336
Decelerated / (accelerated) capital allowances	2,131	573
Higher / (lower) taxes on overseas earnings	(1,046)	(322)
Rollover relief on property gain	-	(19)
Other timing differences	(232)	(173)
Marginal relief claimed	-	(1)
Adjustments in respect of previous years	(1,002)	(110)
Total current tax (note 7(a))	15,735	22,970

7. Tax (continued)

(c) Deferred tax

Group

The deferred tax included in the balance sheet is as follows:

	2010 £000	2009 £000
Included in provisions for liabilities and charges (note 17)	24,649	25,605
Accelerated capital allowances	25,599	26,631
Other timing differences	(950)	(1,026)
Provision for deferred tax	24,649	25,605

	£000
At 1 January 2010	25,605
Acquired with subsidiary undertakings	41
Deferred tax charge in group profit and loss account (note 7(a))	(997)
At 31 December 2010	24,649

Company

The deferred tax included in the balance sheet is as follows:

	2010 £000	2009 £000
Included in provisions for liabilities and charges (note 17)	6,315	5,584
Accelerated capital allowances	6,140	5,583
Other timing differences	175	1
Provision for deferred tax	6,315	5,584

	£000
At 1 January 2010	5,584
Transferred from subsidiary undertakings	41
Deferred tax charge in profit and loss account	690
At 31 December 2010	6,315

(d) Factors that may affect future tax charges

The tax charge in future periods may be affected by the group's continued ability to shelter gains through rollover relief. No provision has been made for tax in respect of gains rolled over. Gains that have been previously rolled over may crystallise in the future, if it is not possible to reinvest in suitable qualifying replacement assets, and result in an increased tax liability. The total amount of the tax unprovided is £4,100,000 (2009 - £4,254,000). At present, it is not envisaged that any tax will become payable in the foreseeable future in this regard.

The UK Government have announced their intention to reduce the main UK corporation tax rates from 28% to 24% in 1% stages between 1 April 2011 and 1 April 2014. The reduction in the corporation tax rate to 27% was included in the finance bill that was enacted on 27 July 2010 and is reflected in the deferred tax calculation. The further rate reductions will not be substantially enacted until later periods. Had the reductions already been enacted, the deferred tax liability of the group at 31 December 2010 would be reduced by £2,739,000 and the liability of the company would be reduced by £702,000.

8. Goodwill

Group

	Goodwill £000	Negative goodwill £000	Total £000
Cost:			
At 1 January 2010	10,777	(1,351)	9,426
Additions (note 10)	125	-	125
At 31 December 2010	10,902	(1,351)	9,551
Amortisation:			
At 1 January 2010	(6,359)	166	(6,193)
Provided during the year	(2,092)	17	(2,075)
At 31 December 2010	(8,451)	183	(8,268)
Net book value:			
At 31 December 2010	2,451	(1,168)	1,283
At 31 December 2009	4,418	(1,185)	3,233

Company

	Goodwill £000
Cost:	
At 1 January 2010	6,080
Additions	60
At 31 December 2010	6,140
Amortisation:	
At 1 January 2010	(2,553)
Provided during the year	(1,272)
At 31 December 2010	(3,825)
Net book value:	
At 31 December 2010	2,315
At 31 December 2009	3,527

Goodwill arising on the acquisition of subsidiary companies and unincorporated businesses is amortised evenly over the directors' estimate of their useful economic lives, which is currently considered to be 5 years.

Negative goodwill arising on the acquisition of the share capital of Glasgow Training Group (Motor Trade) Limited is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale.

8. Goodwill (continued)

True and fair override on divisionalisation of subsidiaries

As part of a rationalisation of the group following the acquisition of R H Patterson & Co Limited, the trade and net assets of the subsidiary undertakings were transferred to the company at their book value as at 31 December 2007. The cost of the company's investment in R H Patterson & Co Limited reflected the underlying fair value of its net assets and goodwill at the time of its acquisition. As a result of this transfer, the value of the company's investment in that subsidiary undertaking fell below the amount at which it was stated in the company's accounting records. The directors consider that, as there had been no overall loss to the group, it would fail to give a true and fair view to charge the diminution to the company's profit and loss account and it should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill. The effect on the company's balance sheet of this departure is to recognise goodwill of £5,630,000 (2009 - £5,630,000). Amortisation of £1,126,000 has been charged in respect of this goodwill during the year (2009 - £1,126,000) and the accumulated amortisation is £3,378,000 (2009 - £2,252,000).

The company paid a further amount of £60,000 for goodwill during the acquisition of the trade and assets of a Citroen and Hyundai dealership in Stirling.

9. Tangible fixed assets

Group

	Land and buildings £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost:				
At 1 January 2010	247,525	43,567	529,654	820,746
Additions	20,523	6,772	338,432	365,727
Disposals	(971)	(722)	(305,901)	(307,594)
Acquisition of subsidiary undertakings	5,499	21	8	5,528
At 31 December 2010	272,576	49,638	562,193	884,407
Depreciation:				
At 1 January 2010	27,582	28,055	143,041	198,678
Provided during the year	5,136	6,407	104,055	115,598
Disposals	(181)	(558)	(85,688)	(86,427)
At 31 December 2010	32,537	33,904	161,408	227,849
Net book value:				
At 31 December 2010	240,039	15,734	400,785	656,558
At 31 December 2009	219,943	15,512	386,613	622,068

The group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £528,517,000 (2009 - £500,731,000) and related accumulated depreciation of £153,987,000 (2009 - £136,933,000), which are held for use in operating leases.

9. Tangible fixed assets (continued)

Company

	Land and buildings £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost:				
At 1 January 2010	223,795	38,114	25,977	287,886
Additions	20,495	6,458	22,360	49,313
Disposals	(963)	(828)	(18,910)	(20,701)
Transfer from subsidiary undertakings	5,499	21	8	5,528
At 31 December 2010	248,826	43,765	29,435	322,026
Depreciation:				
At 1 January 2010	25,668	24,469	5,687	55,824
Provided during the year	4,734	5,804	6,027	16,565
Disposals	(181)	(667)	(4,779)	(5,627)
At 31 December 2010	30,221	29,606	6,935	66,762
Net book value:				
At 31 December 2010	218,605	14,159	22,500	255,264
At 31 December 2009	198,127	13,645	20,290	232,062

The net book value of land and buildings comprises:

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Investment properties	3,633	5,110	3,633	5,110
Freehold	224,250	203,832	203,122	182,349
Long leasehold	12,156	11,001	11,850	10,668
	240,039	219,943	218,605	198,127

The directors are of the opinion that the current market value and the book value of the investment properties are not materially different.

10. Investments

Group

	Listed investments £000	Other investments £000	Total £000
Cost:			
At 1 January 2010	1,515	48,895	50,410
Additions	529	32,175	32,704
Disposals	(282)	(749)	(1,031)
At 31 December 2010	1,762	80,321	82,083
Amounts provided:			
At 1 January 2010 and at 31 December 2010	62	-	62
Net book value:			
At 31 December 2010	1,700	80,321	82,021
At 31 December 2009	1,453	48,895	50,348

The market value of the listed investments at 31 December 2010 was £2,202,000 (2009 - £1,842,000).

Included in other investments is £27,300,000 (2009 - £nil) held in bank certificates of deposit and clearer certificates of deposit. These investments are highly liquid and readily convertible to cash.

Company

	Other investments £000	Subsidiaries £000	Total £000
At 1 January 2010	3,123	45,964	49,087
Additions	14,120	3,146	17,266
Disposals	(749)	-	(749)
At 31 December 2010	16,494	49,110	65,604

Included in other investments is £14,110,000 (2009 - £nil) held in bank certificates of deposit and clearer certificates of deposit. These investments are highly liquid and readily convertible to cash.

Included in other investments is £2,374,000 (2009 - £3,123,000) held by Harlequin Insurance PCC Limited, a joint arrangement that is not an entity.

10. Investments (continued)

The table below gives details of the group's principal operating subsidiaries. The group also includes a large number of non-trading companies and it is not practical to include all of them in this list. The list, therefore, only includes those companies that have a significant impact on the revenue, profit or assets of the group. No subsidiary undertaking is excluded from the group consolidation.

Name of company	Country of registration	Holding	Proportion held	Nature of business
Principal subsidiaries:				
Arnold Clark Autocare Limited	Guernsey	Ordinary shares	100%	Investment holding company
Arnold Clark Finance Limited	Scotland	Ordinary shares	100%	Hiring of motor vehicles
Arnold Clark Holdings (Malta) Limited	Malta	Ordinary shares	100%	Insurance services
Arnold Clark Insurance Services Limited	Scotland	Ordinary shares	100%	Insurance services
GTG Training Limited	Scotland	Ordinary shares	100%	Provision of education and training
Harry Fairbairn Limited	Scotland	Ordinary shares	100%	Sale and servicing of motor vehicles

On 30 November 2010 the company acquired the entire share capital of Delmore Cars Limited. On that date, the trade, assets and liabilities of the company were transferred to Arnold Clark Automobiles Limited and the company has not traded since that date. The investment in Delmore Cars Limited has been included in the company's balance sheet at cost.

Net assets and fair values to group at date of acquisition:

	£000
Tangible fixed assets	1,309
Stocks	442
Debtors	91
Cash at bank	106
Creditors: amounts falling due within one year	(647)
Creditors: amounts falling due after more than one year	(199)
Provisions for liabilities and charges	(41)
Net assets	1,061
Goodwill arising on acquisition (note 8)	25
	1,086
Discharged by:	
Cash	1,061
Costs associated with the acquisition	25
	1,086

10. Investments (continued)

The business acquired as Delmore Cars Limited was responsible for an outflow of £56,000 from the group's net operating cashflows, paid £1,000 in respect of net returns on investments and servicing of finance, paid £118,000 for capital expenditure and financial investment and paid £229,000 in respect of financing.

Delmore Cars Limited returned a profit after tax of £20,000 for the 9 months ended 31 December 2010 (year ended 31 March 2010 - £27,000) all of which arose in the period from 1 April 2010 to 30 November 2010. The summarised profit and loss account for the period from 1 April 2010 to the date of acquisition is as follows:

	£000
Turnover	3,527
Operating profit	35
Net interest	(4)
Profit before tax	31
Taxation	(11)
Profit for the period from 1 April 2010 to 30 November 2010	20

On 22 January 2010 the company acquired the entire share capital of Esh Space (Birtley) Limited. On that date, the trade, assets and liabilities of the company were transferred to Arnold Clark Automobiles Limited. The investment in Esh Space (Birtley) Limited has been included in the company's balance sheet at cost.

Net assets and fair values to group at date of acquisition:

	£000
Tangible fixed assets	4,219
Debtors	40
Cash at bank	21
Creditors: amounts falling due within one year	(2,260)
Net assets	2,020
Goodwill arising on acquisition (note 8)	40
	2,060
Discharged by:	
Cash	2,020
Costs associated with the acquisition	40
	2,060

Esh Space (Birtley) Limited was responsible for an outflow of £339,000 from the group's net operating cashflows, received £4,000 in respect of UK corporation tax and paid £1,890,000 in respect of financing.

11. Stocks

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Motor vehicles	170,361	238,556	149,112	212,491
Parts and accessories	11,372	10,096	11,044	9,809
Other	2,309	2,200	2,300	2,191
Consignment stocks	45,367	35,715	40,991	32,359
Buy back vehicles	291	297	169	173
	229,700	286,864	203,616	257,023

Group

At 31 December 2010 the group held vehicles on sale or return with a wholesale value of £95,337,000 (2009 - £99,547,000) excluding Value Added Tax.

Included in stocks is £45,367,000 (2009 - £35,715,000) in respect of vehicles where the risk and rewards of ownership are considered to lie with the group. The corresponding liability is included within creditors (note 13).

The directors are satisfied that the remaining vehicles totalling £49,970,000 (2009 - £63,832,000) are assets of the manufacturers. In relation to these stocks, the group primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

Company

At 31 December 2010 the company held vehicles on sale or return with a wholesale value of £90,961,000 (2009 - £96,191,000) excluding Value Added Tax.

Included in stocks is £40,991,000 (2009 - £32,359,000) in respect of vehicles where the risk and rewards of ownership are considered to lie with the company. The corresponding liability is included within creditors (note 13).

The directors are satisfied that the remaining vehicles totalling £49,970,000 (2009 - £63,832,000) are assets of the manufacturers. In relation to these stocks, the company primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

12. Debtors

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Trade debtors	38,247	43,124	23,601	28,134
Other debtors	4,450	3,564	3,714	2,234
VAT receivable from HMRC	-	13,291	-	11,993
Prepayments and accrued income	22,054	19,457	18,044	15,350
	64,751	79,436	45,359	57,711

13. Creditors: amounts falling due within one year

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Bank overdraft	-	-	-	3,320
Other loans repayable on demand (note 15)	17,657	136	17,657	136
Obligations under hire purchase contracts (note 16)	161,483	179,023	-	-
Trade creditors	106,690	113,442	68,139	78,881
Current corporation tax	13,753	16,728	5,017	10,839
Other taxes and social security costs	7,920	5,146	5,589	5,146
Other creditors	26,281	24,571	8,718	8,184
Accruals and deferred income	85,540	91,202	53,315	58,995
Consignment stock creditor	45,367	35,715	40,991	32,359
Buy back vehicle creditor	17	-	-	-
Amounts due to group undertakings	-	-	39,441	47,799
	464,708	465,963	238,867	245,659

14. Creditors: amounts falling due after more than one year

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Obligations under hire purchase contracts (note 16)	159,808	144,935	-	-
Buy back vehicle creditor	274	297	169	173
Rentals in advance	3,838	3,884	-	-
	163,920	149,116	169	173

15. Loans

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Amounts falling due:				
In one year or less or on demand	17,657	136	17,657	136

The loan represents a stocking facility with Lombard North Central plc and is repayable on demand.

In the prior year the loans represented £136,000 in unsecured redeemable loan notes issued as part of the acquisition of R H Patterson & Co Limited in 2007. The loan notes were all redeemed on 12 April 2010. The loan notes carried a right to interest, which was payable every six months, at The Royal Bank of Scotland plc base rate.

16. Obligations under leases and hire purchase contracts

Amounts due under hire purchase contracts:

Group

	2010	2009
	£000	£000
Amounts payable:		
Within one year (note 13)	161,483	179,023
In two to five years (note 14)	159,808	144,935
	321,291	323,958

Annual commitments under non-cancellable operating leases, all of which relate to property, are as follows:

	Group		Company	
	2010	2009	2010	2009
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	158	131	138	127
In two to five years	628	602	502	452
In over five years	1,254	2,132	1,209	2,069
	2,040	2,865	1,849	2,648

17. Provisions for liabilities and charges

Group

	Commission clawback £000	Deferred taxation £000	Total £000
At 1 January 2010	7,442	25,605	33,047
Charged in the year	3,337	(997)	2,340
Utilised in the year	(3,387)	-	(3,387)
Acquired with subsidiary undertakings	-	41	41
At 31 December 2010	7,392	24,649	32,041

Company

	Commission clawback £000	Deferred taxation £000	Total £000
At 1 January 2010	7,304	5,584	12,888
Charged in the year	3,354	690	4,044
Utilised in the year	(3,351)	-	(3,351)
Transferred from subsidiary undertakings	-	41	41
At 31 December 2010	7,307	6,315	13,622

The company acts as a licensed credit broker and earns commission from a variety of finance companies. Under certain circumstances, where, for example, a finance agreement is terminated early due to legal action for non-payment, the commission, or an element of it, is repayable to the finance company. The commission clawback provision reflects the expected liability at the balance sheet date and is anticipated to crystallise over a period of up to five years in line with the terms of the associated finance arrangements.

Details of the deferred taxation provided in the accounts are included in note 7(c).

18. Share capital

	Authorised 2010 No.	2009 No.	Allotted, called up and fully paid 2010 £000	2009 £000
Ordinary shares of £1 each	1,000,000	1,000,000	999	999

19. Reserves

Group

	Capital redemption reserve £000	Capital reserve £000	Profit and loss account £000
At 1 January 2010	1	612	411,661
Profit for the year	-	-	35,809
Dividends	-	-	(1,799)
At 31 December 2010	1	612	445,671

Company

	Capital redemption reserve £000	Capital reserve £000	Profit and loss account £000
At 1 January 2010	1	2,646	337,044
Profit for the year	-	-	24,585
Dividends	-	-	(1,799)
At 31 December 2010	1	2,646	359,830

20. Movement in shareholders' funds

Group

	2010 £000	2009 £000
Shareholders' funds at 1 January	413,273	362,234
Profit for the year	35,809	51,639
Dividends	(1,799)	(600)
Shareholders' funds at 31 December	447,283	413,273

21. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2010 £000	2009 £000
Operating profit	58,432	82,669
Depreciation of tangible fixed assets	115,598	100,639
Net amortisation of goodwill	2,075	2,092
Gain on disposal of fixed assets	(1,925)	(2,003)
Decrease / (increase) in stocks	57,606	(44,674)
Decrease / (increase) in debtors	14,816	(25,438)
Increase / (decrease) in creditors	623	10,335
Increase / (decrease) in provisions	(50)	(307)
Net cash inflow from operating activities	247,175	123,313

(b) Analysis of net debt

	At 1 January 2010 £000	Cash flows £000	Acquisition of subsidiaries £000	At 31 December 2010 £000
Cash at bank and in hand	19,450	54,189	-	73,639
Hire purchase contracts	(323,958)	2,667	-	(321,291)
Loans	(136)	(15,402)	(2,119)	(17,657)
	(304,644)	41,454	(2,119)	(265,309)

22. Capital commitments

At the year end, the group and company had capital commitments as follows:

	Group		Company	
	2010 £000	2009 £000	2010 £000	2009 £000
Contracted but not provided for	2,949	5,315	2,949	5,315
Authorised but not contracted	10,051	7,128	7,411	7,128
	13,000	12,443	10,360	12,443

23. Other financial commitments

In addition to buy back vehicles referred to in notes 11, 13 and 14, the company has undertaken to repurchase certain motor vehicles throughout 2011. As the company will be repurchasing these vehicles at trade values at the date of purchase, the directors consider that losses arising from disposal of the vehicles for less than the repurchase value will not occur and, accordingly, no provision for such losses is made in the financial statements.

24. Contingent assets / liabilities

Group

The group continues to negotiate with HM Revenue & Customs over further potential amounts receivable in respect of the retrospective claim made over issues arising from European Court judgments. The directors are currently unable to estimate the amounts receivable with any certainty.

Company

Under a group registration for Value Added Tax the companies within the group are jointly and severally liable for Value Added Tax due by any member of the group registration. At 31 December 2010 the Value Added Tax payable by other members of the group registration amounted to £2,251,000 (2009 - £1,353,000 recoverable).

Under the terms of an inter company guarantee, the parent company and its trading subsidiaries have jointly and severally guaranteed repayment of all sums due to The Royal Bank of Scotland plc by any of the parties to the guarantee. At 31 December 2010, the other companies included in the guarantee had net funds of £29,102,000 (2009 - £21,550,000) due from The Royal Bank of Scotland plc.

25. Ultimate controlling party

The directors consider that Sir Arnold Clark is the company's ultimate controlling party by virtue of his office and by virtue of the shareholdings of his immediate family.

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are part of the group.