

Registered Number 36386 (Scotland)

**Report & Financial Statements
31 December 2008**

**Arnold Clark
Automobiles Limited**

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COMPANIES HOUSE

Directors, Principal Officers and Advisers

Directors

Sir Arnold Clark <i>DUniv FIMI</i>	- Chairman & Chief Executive
E Hawthorne <i>BA CA</i>	- Group Managing Director
K J McLean <i>BAcc (Hons) CA</i>	- Group Finance Director
S Willis	- Group Sales Director
Lady Clark <i>MA (Glasgow)</i>	- Director
H D Wallace	- Director
D F Kerr <i>MA (Cantab)</i>	- Director & Company Secretary
W G P Gall <i>FIMI</i>	- Director

Subsidiary Company Directors

D M Cooper <i>BAcc (Hons) FCCA</i>	- Director (Arnold Clark Finance Ltd)
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Principal Officers

A D Brown <i>BA (Hons) CA</i>	- Financial Controller
S J MacAulay <i>MIMI</i>	- Group Parts Manager
W J Stoddart	- Group Bodyshop Manager
A M Hutton <i>MIMI</i>	- Group Service Manager
S Ashforth <i>BA (Hons)</i>	- Group Marketing Manager

Registered Office

134 Nithsdale Drive
Glasgow G41 2PP

Auditors

Ernst & Young LLP
50 George Square
Glasgow G2 1RR

VAT Advisers

Deloitte LLP
1 City Square
Leeds LS1 2AL

Solicitors

HBM Sayers
13 Bath Street
Glasgow G2 1HY

Principal Bankers

The Royal Bank of Scotland plc
1304 Duke Street
Glasgow G31 5PZ

Tax Advisers

Grant Thornton UK LLP
95 Bothwell Street
Glasgow G2 7JZ

Brodies LLP
2 Blythswood Square
Glasgow G2 4AD

Chairman's Statement

Trading and Results

2008 will be remembered as the year when the global and UK economies underwent a significant rebalancing. The crisis in the banking sector has had far reaching implications for every other business sector and the motor industry has been no exception. Retailers and manufacturers have been significantly affected by these unprecedented economic conditions. A combination of an oversupply of new vehicles into the UK marketplace, overstocking by manufacturers and dealers, a rapid downturn in orders experienced by major fleet operators and the lack of liquidity in the banking sector led to a near panic conversion of vehicle stock to cash in the second half of 2008. This resulted in a severe fall in residual values of used vehicles and a major decline in new vehicle registrations to 2.1m from 2.4m in 2007 as consumer confidence evaporated.

The group was not exempt from the impact of this downturn with our contract hire division suffering from the severe decline in residual values and profitability suffered as the group's used car stock was realigned with market values. Although new vehicle sales declined dramatically, used car unit sales remained relatively strong as customers traded down to smaller, more economical vehicles.

Notwithstanding the severe market conditions, the group's turnover increased by 6.1% to £2,210m, largely as a result of the fact that our Newcastle upon Tyne businesses were only acquired in the latter half of 2007 and contributed a full year's turnover in 2008; like for like sales were actually down 4.0% on 2007 equivalent figures. The downturn in demand and rapidly falling used car residual values inevitably had a detrimental impact on the group's profitability but it is, however, very pleasing to note that, despite these factors, the group's operating profit before amortisation of goodwill and exceptional items for the year is £57.4m. Whilst this is a decrease of £28.6m when compared with 2007, it is nonetheless a very impressive and satisfying result under the circumstances.

Acquisitions and Refurbishment

There have been no business acquisitions during the year due to a lack of appropriate opportunities but we have continued to grow through a mixture of greenfield development, improvement of existing premises and acquisition of sites in key areas.

The highlight of the year was the opening of our stunning new flagship Motorstore in Stafford in October. This highly innovative 70,000 sq ft showroom sits on a 12 acre site and has been built using the latest technologies to reduce the environmental impact of the building. As well as re-using harvested rainwater collected by syphonic drainage to operate its car wash and valet facilities, the development uses an energy efficient heating system which gathers heat from 100m below the development utilising a ground source heat pump. In what we believe is the first example of its kind in the UK motor trade, the group has installed the latest wireless technology to locate, track and control vehicle movements from arriving at the Motorstore through to customer purchase. This technology ensures that each and every one of the 1,000 vehicles on site can be located quickly and easily as well as ensuring an efficient workflow through the aftersales and valet departments to vehicle handover.

In June we purchased the vacant Dixon Motors site in Huddersfield, which is 400 metres from our existing Motorstore. This site will be redeveloped to house a new aftersales facility, allowing for the expansion of the current dealership. In July, we purchased 2.1 acres of land adjacent to our Edinburgh West Motorstore. Work will commence shortly on the redevelopment of the expanded site to accommodate the transfer of the Fiat franchise from Gorgie Road in the west of Edinburgh. The redeveloped 4 acre site will operate as a combined Fiat and Motorstore dealership.

In July we reached an agreement with the landlord to purchase the freehold of our existing leased Vauxhall branch in Lenzie whilst September saw the completion of a new bodyshop at our St Helens Renault dealership. The body repair operation at our nearby Wigan branch was relocated to this new facility, which has allowed for the expansion of the Wigan Renault service department.

Liverpool Chevrolet ceased trading in October and the site is currently being used as a Hire Drive centre.

In Kirkcaldy, we received an unsolicited offer from Fife Council for our Volvo site in the town centre which they require to extend the council offices. In return for the freehold of this site, we are gaining 4 acres of land at Carberry Road, the town's "Motor Mile". The branch ceased to trade on 31 December but the legal formalities around the exchange of sites are still ongoing. All staff were transferred to other locations in Kirkcaldy.

Other notable property transactions included the purchase of 2 acres of land behind our existing Renault and Nissan facility in Dundee, and a commitment to purchase both a former motor dealership adjacent to our Liverpool Motorstore and a site adjacent to our Scotswood Road Ford dealership in Newcastle upon Tyne, which will allow for the relocation of our Ford commercial dealership. Both of these acquisitions are expected to complete before September 2009.

Despite the harsh economic conditions, the group continues to be committed to the refurbishment and improvement of our existing facilities, not only to comply with manufacturers' standards, but also to meet our own exacting requirements for high quality, modern premises which will provide our customers with a superb retail experience.

In August, the £1.5m refurbishment of our Harry Fairbairn BMW showroom in south Glasgow was completed. The showroom was expanded into the space vacated by the service department, which was previously relocated to a nearby, purpose built, aftersales facility. At 16,000 sq ft the refurbished showroom is now thought to be the largest BMW showroom in Scotland.

The £1.2m refurbishment of our Vauxhall and Chevrolet showrooms at Hamilton Road in Glasgow was completed in October and work has progressed on the GM brand centre at Stretford in Manchester which will be completed shortly, encompassing Vauxhall and Saab.

Other notable refurbishment projects which completed in the year included the creation of a new MOT facility, workshop and used car showroom at Edinburgh Seafield Peugeot, refurbishment of the showroom and relocation of the workshop and bodyshop facilities at Balfield Road, Dundee and the conversion of our Inverness Citroen branch to a modern all makes Motorstore.

Future Prospects

The general consensus on the economy is that the current downturn will last throughout 2009 and into 2010 and the outlook for the motor industry is generally pessimistic. Although 2008 turned out to be a challenging year, the group benefited from the prudent policies adopted in the past. The group has generally operated with a low cost base in comparison with many of our competitors and the Board and all managers are firmly focused on the elimination of waste and operating the business as efficiently as possible. I firmly believe that by continuing to invest in staff training and IT development, the group will emerge from this downturn in a much stronger position.

The group continues to be well funded, demand for used cars is buoyant and used car prices appear to have stabilised. I am confident that, by continuing to offer our customers the right deal on motor vehicles and ancillary products, the group will continue to prosper in 2009.



Sir Arnold Clark
Chairman
16 March 2009

Directors' Report

The directors present their report and the group financial statements for the year ended 31 December 2008.

Results and Dividends

The profit on ordinary activities before taxation amounted to £36,202,000. The profit for the year, after taxation, amounted to £24,357,000.

An ordinary interim dividend of £899,000 was paid. The directors recommend that no final dividend be paid, which leaves a profit of £23,458,000 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 £78m 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 2009 under the relevant contract hire agreements.

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

	2008	2007	Change
Group turnover	£2,210m	£2,084m	6.1%
New car sales (units)	79,148	73,887	7.1%
Used car sales (units)	127,171	120,396	5.6%
Group operating profit before amortisation of goodwill and exceptional items	£57.4m	£86.0m	(33.3)%

The increase in group turnover and new car sales is a result of the acquisitions that took place in the latter half of 2007, particularly R H Patterson & Co Limited, adding significantly to the number of new cars sold in the year. On a like for like basis turnover fell by 4.0% and new car sales fell by 9.1%; these movements are indicative of the wider market conditions.

Used car sales have increased 5.6% in the year, and on a like for like basis are up 2.0%, as customers continue to be attracted to the exceptional value offered by our nearly new and used cars.

The decrease in like for like new car sales, the consequential impact on manufacturer bonuses and the significant falls in used car prices in the year have all contributed to the reduction in group operating profit before amortisation of goodwill and exceptional items in the year.

The forecasts for total new car sales in the UK market remain low and consequently the directors do not expect the group's new car sales or turnover to increase in 2009. Used car sales remain relatively buoyant and prices have stabilised in the early part of 2009; this is therefore considered to be the growth area in the coming year. The directors do not expect any significant changes in the group operating profit before amortisation of goodwill and exceptional items in 2009.

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

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 £212m.

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.

Financial Risk Management Policy

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 has access to a floating rate interest bearing overdraft 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.

Health and Safety

During the year the company built on its success in 2007 by applying for and obtaining a five star award from the British Safety Council. We lost out narrowly in our application for a Sword of Honour, the most prestigious international health and safety accolade that a company can receive, and we intend to apply again for this in the near future. We invest significant resources in the professional development of members of the Group Health & Safety team, so that they are well qualified to give appropriate advice and assistance to the directors and managers of the company.

All accidents and near misses on our premises are investigated by Group Health & Safety and we are pleased to report that there was a reduction of 11.5% in reportable incidents under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 compared with the previous year. Our annual health and safety audit of all branches has proved to be an extremely effective tool in enhancing the safety culture throughout the company. Branches are heavily penalised if they fail the audit and have the opportunity to recoup their loss by making the necessary improvements within a reasonable time span.

Control of contractors continues to be an issue of major importance to us. We started a programme of training sessions for our contractors, to explain our requirements and the consequences of non-compliance. Our most recent session attracted sixty attendees and was very well received. Details of approved contractors are available on our intranet, where we also have a list of prohibited contractors who have not adhered to our standards in the past.

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
16 March 2009

Statement of Directors' Responsibilities in Respect of the Financial Statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group 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 1985. 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 group and parent company financial statements (the "financial statements") of Arnold Clark Automobiles Limited for the year ended 31 December 2008 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group and Company Balance Sheets, Group Statement of Cash Flows and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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 auditors' 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the company's affairs as at 31 December 2008 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Chairman's Statement and the Directors' Report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Glasgow

16 March 2009

Group Profit & Loss Account

for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Turnover	2	2,210,191	2,083,889
Cost of sales		(1,874,768)	(1,744,071)
Gross profit		335,423	339,818
Administrative and distribution expenses		(281,620)	(256,289)
		53,803	83,529
Other operating income		1,540	1,345
Operating profit	3	55,343	84,874
Analysed as:			
Operating profit before exceptional items and amortisation of goodwill		57,364	86,023
Exceptional items	4	-	46
Amortisation of goodwill		(2,021)	(1,195)
Profit on disposal of properties	4	-	3,893
Profit before interest and taxation		55,343	88,767
Income from listed investments		87	97
Bank interest receivable		1,223	1,714
Other interest receivable		57	85
Exceptional item - interest receivable on VAT reclaim	4	-	40
Interest payable	7	(20,508)	(20,601)
Profit on ordinary activities before taxation		36,202	70,102
Tax on profit on ordinary activities	8	(11,845)	(18,539)
Profit on ordinary activities after taxation	20	24,357	51,563

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 £24,357,000 in the year ended 31 December 2008 and the profit of £51,563,000 in the year ended 31 December 2007.

Group Balance Sheet

at 31 December 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Goodwill	9	6,481	8,565
Negative goodwill	9	(1,202)	(1,282)
		<u>5,279</u>	<u>7,283</u>
Tangible assets	10	559,940	560,383
Investments	11	45,086	37,081
		<u>610,305</u>	<u>604,747</u>
Current assets			
Stocks	12	242,190	296,091
Debtors	13	53,998	70,013
Cash at bank and in hand		45,654	22,001
		<u>341,842</u>	<u>388,105</u>
Creditors: amounts falling due within one year	14	(420,281)	(495,122)
		<u>(78,439)</u>	<u>(107,017)</u>
Net current liabilities			
Total assets less current liabilities		531,866	497,730
Creditors: amounts falling due after more than one year	15	(135,547)	(124,283)
Provisions for liabilities and charges	18	(34,085)	(34,671)
Net assets		<u>362,234</u>	<u>338,776</u>
Capital and reserves			
Called up share capital	19	999	999
Capital redemption reserve	20	1	1
Capital reserve	20	612	612
Profit and loss account	20	360,622	337,164
		<u>362,234</u>	<u>338,776</u>
Equity shareholders' funds	21	<u>362,234</u>	<u>338,776</u>

Approved by the Board on 16 March 2009



Sir Arnold Clark
Chairman



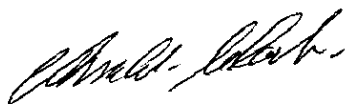
E Hawthorne
Managing Director

Company Balance Sheet

at 31 December 2008

	Notes	2008 £000	2007 £000
Fixed assets			
Goodwill	9	4,743	5,959
Tangible assets	10	212,861	203,454
Investments	11	50,073	51,232
		<u>267,677</u>	<u>260,645</u>
Current assets			
Stocks	12	214,389	254,984
Debtors	13	31,927	48,703
Cash at bank and in hand		36,167	-
		<u>282,483</u>	<u>303,687</u>
Creditors: amounts falling due within one year	14	<u>(242,580)</u>	<u>(285,633)</u>
Net current assets		<u>39,903</u>	<u>18,054</u>
Total assets less current liabilities		<u>307,580</u>	<u>278,699</u>
Provisions for liabilities and charges	18	<u>(13,912)</u>	<u>(13,295)</u>
Net assets		<u>293,668</u>	<u>265,404</u>
Capital and reserves			
Called up share capital	19	999	999
Capital redemption reserve	20	1	1
Capital reserve	20	2,646	2,646
Profit and loss account	20	290,022	261,758
Equity shareholders' funds		<u>293,668</u>	<u>265,404</u>

Approved by the Board on 16 March 2009



Sir Arnold Clark
Chairman



E Hawthorne
Managing Director

Group Statement of Cash Flows

for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Net cash inflow from operating activities	22(a)	202,846	173,210
Returns on investments and servicing of finance			
Interest received		1,280	7,569
Income from listed investments		87	97
Interest paid		(3,847)	(2,039)
Interest element of hire purchase contracts		(17,562)	(18,437)
		<u>(20,042)</u>	<u>(12,810)</u>
Taxation paid		<u>(19,334)</u>	<u>(18,267)</u>
Capital expenditure and financial investment			
Payments to acquire fixed assets		(343,698)	(375,567)
Net payments to acquire investments		(9,863)	(8)
Receipts from sales of fixed assets		249,855	246,638
Net receipt from disposal of investments		1,817	5,317
		<u>(101,889)</u>	<u>(123,620)</u>
Acquisitions and disposals			
Purchase of subsidiary undertakings		-	(19,100)
Net overdraft acquired with subsidiary undertakings		-	(1,742)
		<u>-</u>	<u>(20,842)</u>
Equity dividends paid		<u>(899)</u>	<u>(450)</u>
Net cash inflow / (outflow) before financing		60,682	(2,779)
Financing			
Repayment of borrowings		(2,954)	(511)
Repayment of capital element of hire purchase contracts		(303,260)	(280,106)
New hire purchase contracts		269,185	300,110
		<u>(37,029)</u>	<u>19,493</u>
Increase in cash		<u>23,653</u>	<u>16,714</u>

Group Statement of Cash Flows

for the year ended 31 December 2008

Reconciliation of net cash flow to movement in net debt

		2008	2007
	Notes	£000	£000
Increase in cash		23,653	16,714
Repayment of borrowings		2,954	511
Repayment of capital element of hire purchase contracts		303,260	280,106
New hire purchase contracts		(269,185)	(300,110)
Change in net debt resulting from cash flows		60,682	(2,779)
Other non-cash movements	22(b)	(214)	(4,574)
Movement in net debt		60,468	(7,353)
Net debt at 1 January	22(b)	(294,814)	(287,461)
Net debt at 31 December	22(b)	(234,346)	(294,814)

Notes to the Financial Statements

for the year ended 31 December 2008

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 1985 have been invoked; see investment properties below and goodwill (note 9).

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.230 of the Companies Act 1985; the profit dealt with in the financial statements of the parent company is £29,163,000 (2007 - £68,908,000).

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.

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 over its expected useful life, as follows:

Land and buildings	: Freehold	-	2% (straight line basis)
	: Leasehold	-	over the lease term
Plant and equipment	: General	-	15% or 20% (reducing balance basis)
	: Computer equipment	-	40% (reducing balance basis)
Motor vehicles		-	20% or 25% (reducing balance basis)
Contract hire vehicles		-	straight line over the term of the contract

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.

Notes to the Financial Statements

for the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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 Companies Act 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.

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.

Notes to the Financial Statements

for the year ended 31 December 2008

1. ACCOUNTING POLICIES (continued)

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.

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:

	<i>Distributing, retailing and servicing of motor vehicles</i>		<i>Hiring of motor vehicles</i>		<i>Total</i>	
	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>	<i>2008</i> <i>£000</i>	<i>2007</i> <i>£000</i>
Turnover	2,072,052	1,951,164	138,139	132,725	2,210,191	2,083,889
Profit before taxation	37,711	66,065	(1,509)	4,037	36,202	70,102
Net assets	338,872	314,406	23,362	24,370	362,234	338,776

Notes to the Financial Statements

for the year ended 31 December 2008

3. OPERATING PROFIT

This is stated after charging / (crediting):

		2008 £000	2007 £000
Auditors' remuneration	- audit services	160	160
	- local statutory audits for subsidiaries	24	-
	- taxation services	40	37
Depreciation	- owned assets	16,481	14,677
	- assets held under hire purchase contracts	81,139	76,442
Amortisation of goodwill		2,021	1,195
Write down of fixed asset investments		62	-
Operating lease rentals	- land and buildings	3,509	2,842
Gain on sale of fixed assets		(1,122)	(1,182)

The auditors' remuneration includes £113,000 in respect of the audit of the company (2007 - £98,000).

4. EXCEPTIONAL ITEMS

Exceptional items during the year were as follows:

	2008 £000	2007 £000
VAT reclaim	-	46
Exceptional items included within operating profit	-	46
Gains on property disposal	-	3,893
Interest receivable on VAT reclaim	-	40
	-	3,979

The exceptional VAT income and the associated interest receivable were in respect of retrospective VAT claims relating to issues arising from European Court judgements.

The gains on property disposal were rolled over into qualifying expenditure and therefore had no effect on the tax charge in the profit and loss account.

5. STAFF COSTS

	2008 £000	2007 £000
Wages and salaries	173,281	160,625
Social security costs	16,599	15,429
Pension costs	264	105
	190,144	176,159

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

	2008 No.	2007 No.
Office and management	1,529	1,436
Sales	2,203	2,025
Servicing	4,689	4,492
	8,421	7,953

Notes to the Financial Statements

for the year ended 31 December 2008

6. DIRECTORS' EMOLUMENTS

	2008 £000	2007 £000
Emoluments	2,654	3,083
Emoluments of the highest paid director	1,200	1,354

No pension contributions were made in respect of any of the directors.

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2008 £000	2007 £000
Bank loans and overdrafts	36	112
Finance charges payable under hire purchase contracts	16,507	18,437
Stocking loans	3,903	1,988
Other	62	64
	20,508	20,601

8. TAX

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2008 £000	2007 £000
<i>Current tax:</i>		
UK corporation tax	17,255	19,158
Tax over provided in previous years	(2,340)	(104)
Total current tax (note 8(b))	14,915	19,054
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(4,989)	1,494
Effect of decreased tax rate on opening liability	-	(2,100)
Tax under provided in previous years	1,919	91
Group deferred tax charge (note 8(c))	(3,070)	(515)
Tax on profit on ordinary activities	11,845	18,539

Notes to the Financial Statements

for the year ended 31 December 2008

8. TAX (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher (2007 - lower) than the standard rate of corporation tax in the UK of 28.5% (2007 - 30%). The differences are reconciled below:

	2008 £000	2007 £000
Profit on ordinary activities before tax	36,202	70,102
Profit on ordinary activities multiplied by standard rate of corporation tax to the group of 28.5% (2007 - 30%)	10,318	21,031
Expenses not deductible for tax purposes	2,492	571
Decelerated / (accelerated) capital allowances	3,718	(476)
Higher taxes on overseas earnings	395	83
Rollover relief on property gain	-	(1,141)
Other timing differences	335	(905)
Marginal relief claimed	(3)	(5)
Tax over provided in previous years	(2,340)	(104)
Total current tax (note 8(a))	14,915	19,054

(c) Deferred tax

Group

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

	2008 £000	2007 £000
Included in provisions for liabilities and charges (note 18)	26,336	29,406
Accelerated capital allowances	26,210	27,286
Other timing differences	126	2,120
Provision for deferred tax	26,336	29,406
	£000	
At 1 January 2008		29,406
Deferred tax charge in group profit and loss account (note 8(a))		(3,070)
At 31 December 2008		26,336

Notes to the Financial Statements

for the year ended 31 December 2008

8. TAX (continued)

Company

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

	2008 £000	2007 £000
Included in provisions for liabilities and charges (note 18)	6,259	8,118
Accelerated capital allowances	5,536	5,993
Other timing differences	723	2,125
Provision for deferred tax	6,259	8,118
		£000
At 1 January 2008		8,118
Deferred tax charge in profit and loss account		(1,859)
At 31 December 2008		6,259

(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 £4,235,000 (2007 - £4,235,000). At present, it is not envisaged that any tax will become payable in the foreseeable future in this regard.

Notes to the Financial Statements

for the year ended 31 December 2008

9. GOODWILL

Group

	<i>Goodwill £000</i>	<i>Negative goodwill £000</i>	<i>Total £000</i>
<i>Cost:</i>			
At 1 January 2008	10,714	(1,351)	9,363
Additions	17	-	17
At 31 December 2008	10,731	(1,351)	9,380
<i>Amortisation:</i>			
At 1 January 2008	(2,149)	69	(2,080)
Provided during the year	(2,101)	80	(2,021)
At 31 December 2008	(4,250)	149	(4,101)
<i>Net book value:</i>			
At 31 December 2008	6,481	(1,202)	5,279
At 31 December 2007	8,565	(1,282)	7,283

Company

	<i>Goodwill £000</i>
<i>Cost:</i>	
At 1 January 2008 and at 31 December 2008	6,080
<i>Amortisation:</i>	
At 1 January 2008	(121)
Provided during the year	(1,216)
At 31 December 2008	(1,337)
<i>Net book value:</i>	
At 31 December 2008	4,743
At 31 December 2007	5,959

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.

Notes to the Financial Statements

for the year ended 31 December 2008

9. 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 and Ian Grieve (Stirling) 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. Schedule 4 to the Companies Act 1985 requires that the investment be written down accordingly and that the amount be charged as a loss in the company's profit and loss account. However, 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 (2007 - £5,630,000). Amortisation of £1,126,000 has been charged in respect of this goodwill during the year (2007 - £nil) and the accumulated amortisation is £1,126,000 (2007 - £nil).

10. TANGIBLE FIXED ASSETS

Group

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	£000	£000	£000	£000
<i>Cost:</i>				
At 1 January 2008	201,218	33,327	495,127	729,672
Additions	22,681	6,975	314,025	343,681
Disposals	(117)	(1,353)	(328,688)	(330,158)
At 31 December 2008	223,782	38,949	480,464	743,195
<i>Depreciation:</i>				
At 1 January 2008	18,381	18,837	132,071	169,289
Provided during the year	4,198	5,704	87,718	97,620
Disposals	(16)	(1,283)	(82,355)	(83,654)
At 31 December 2008	22,563	23,258	137,434	183,255
<i>Net book value:</i>				
At 31 December 2008	201,219	15,691	343,030	559,940
At 31 December 2007	182,837	14,490	363,056	560,383

The group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £451,415,000 (2007 - £458,385,000) and related accumulated depreciation of £130,797,000 (2007 - £127,104,000), which are held for use in operating leases.

Notes to the Financial Statements

for the year ended 31 December 2008

10. TANGIBLE FIXED ASSETS (continued)

Company

	<i>Land and buildings</i>	<i>Plant and equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	£000	£000	£000	£000
<i>Cost:</i>				
At 1 January 2008	179,268	29,571	32,638	241,477
Additions	21,221	6,071	19,331	46,623
Disposals	(117)	(1,318)	(26,075)	(27,510)
At 31 December 2008	200,372	34,324	25,894	260,590
<i>Depreciation:</i>				
At 1 January 2008	17,238	16,728	4,057	38,023
Provided during the year	3,810	5,087	5,917	14,814
Disposals	(16)	(1,247)	(3,845)	(5,108)
At 31 December 2008	21,032	20,568	6,129	47,729
<i>Net book value:</i>				
At 31 December 2008	179,340	13,756	19,765	212,861
At 31 December 2007	162,030	12,843	28,581	203,454

The net book value of land and buildings comprises:

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Investment properties	2,074	1,414	2,074	1,414
Freehold	191,281	174,959	169,749	154,511
Long leasehold	7,864	6,464	7,517	6,105
	201,219	182,837	179,340	162,030

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

Notes to the Financial Statements

for the year ended 31 December 2008

11. INVESTMENTS

Group	Listed investments £000	Other investments £000	Total £000
<i>Cost:</i>			
At 1 January 2008	1,731	35,350	37,081
Additions	284	9,579	9,863
Disposals	(518)	(1,278)	(1,796)
At 31 December 2008	1,497	43,651	45,148
<i>Amounts provided:</i>			
At 1 January 2008	-	-	-
Provided during the year	62	-	62
At 31 December 2008	62	-	62
<i>Net book value:</i>			
At 31 December 2008	1,435	43,651	45,086
At 31 December 2007	1,731	35,350	37,081

The market value of the listed investments at 31 December 2008 was £1,435,000 (2007 - £2,423,000).

Company	Other investments £000	Subsidiaries £000	Total £000
At 1 January 2008	5,433	45,799	51,232
Additions	-	119	119
Disposals	(1,278)	-	(1,278)
At 31 December 2008	4,155	45,918	50,073

The company's other investments are held by Friary Court Insurance PCC Limited, a joint arrangement that is not an entity.

Notes to the Financial Statements

for the year ended 31 December 2008

11. INVESTMENTS (continued)

Details of the principal investments in which the group or the company holds more than 20% of the equity are as follows:

Name of company	Country of registration	Holding	Proportion held	Nature of business
<i>Principal subsidiaries:</i>				
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

12. STOCKS

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Motor vehicles	170,637	214,348	146,382	175,652
Parts and accessories	10,898	10,731	10,633	10,487
Other	1,668	1,727	1,661	1,718
Consignment stocks	55,580	61,037	52,306	58,879
Buy back vehicles	3,407	8,248	3,407	8,248
	<u>242,190</u>	<u>296,091</u>	<u>214,389</u>	<u>254,984</u>

Group

At 31 December 2008 the group held vehicles on sale or return with a wholesale value of £112,414,000 (2007 - £124,312,000) excluding Value Added Tax.

Included in stocks is £55,580,000 (2007 - £61,037,000) 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 14).

The directors are satisfied that the remaining vehicles totalling £56,834,000 (2007 - £63,275,000) 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.

Notes to the Financial Statements

for the year ended 31 December 2008

12. STOCKS (continued)

Company

At 31 December 2008 the company held vehicles on sale or return with a wholesale value of £109,140,000 (2007 - £122,154,000) excluding Value Added Tax.

Included in stocks is £52,306,000 (2007 - £58,879,000) 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 14).

The directors are satisfied that the remaining vehicles totalling £56,834,000 (2007 - £63,275,000) 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.

13. DEBTORS

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Trade debtors	36,292	44,830	19,466	29,532
Other debtors	3,209	5,590	1,944	2,458
Net VAT and interest receivable from HMRC	-	587	-	2,042
Prepayments and accrued income	14,497	19,006	10,517	14,671
	53,998	70,013	31,927	48,703

14. CREDITORS: amounts falling due within one year

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Bank overdraft	-	-	-	891
Other loans repayable on demand (note 16)	214	2,954	214	2,954
Obligations under hire purchase contracts (note 17)	148,158	193,483	-	-
Trade creditors	89,710	102,109	59,319	76,694
Current corporation tax	11,850	16,269	6,641	13,852
Other taxes and social security costs	9,228	5,132	7,705	5,132
Other creditors	22,689	26,114	8,081	14,744
Accruals and deferred income	79,445	79,776	49,909	51,110
Consignment stock creditor	55,580	61,037	52,306	58,879
Buy back vehicle creditor	3,407	8,248	3,407	8,248
Amounts due to group undertakings	-	-	54,998	53,129
	420,281	495,122	242,580	285,633

Notes to the Financial Statements

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15. CREDITORS: amounts falling due after more than one year

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
Obligations under hire purchase contracts (note 17)	131,628	120,378	-	-
Rentals in advance	3,919	3,905	-	-
	<u>135,547</u>	<u>124,283</u>	<u>-</u>	<u>-</u>

16. LOANS

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
<i>Amounts falling due:</i>				
In one year or less or on demand	214	2,954	214	2,954

The loans represent £214,000 (2007 - £2,759,000) in unsecured redeemable loan notes issued as part of the acquisition of R H Patterson & Co Limited in 2007.

The loan notes carry a right to interest, which is payable every six months, at 0.5% below The Royal Bank of Scotland plc base rate.

The prior year figure also included a £195,000 Ford Credit Europe loan which was acquired as part of the acquisition of R H Patterson & Co Limited and which was repaid in full in February 2008.

17. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under hire purchase contracts:

Group	2008	2007
	£000	£000
<i>Amounts payable:</i>		
Within one year (note 14)	148,158	193,483
In two to five years (note 15)	131,628	120,378
	<u>279,786</u>	<u>313,861</u>

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

	Group		Company	
	2008	2007	2008	2007
	£000	£000	£000	£000
<i>Operating leases which expire:</i>				
Within one year	361	15	351	15
In two to five years	772	987	723	928
In over five years	1,644	1,666	1,618	1,633
	<u>2,777</u>	<u>2,668</u>	<u>2,692</u>	<u>2,576</u>

Notes to the Financial Statements

for the year ended 31 December 2008

18. PROVISIONS FOR LIABILITIES AND CHARGES

Group

	<i>Warranty provision £000</i>	<i>Commission clawback £000</i>	<i>Deferred taxation £000</i>	<i>Total £000</i>
At 1 January 2008	44	5,221	29,406	34,671
Charged in the year	-	5,462	(3,070)	2,392
Utilised in the year	(44)	(2,934)	-	(2,978)
At 31 December 2008	-	7,749	26,336	34,085

Company

	<i>Warranty provision £000</i>	<i>Commission clawback £000</i>	<i>Deferred taxation £000</i>	<i>Total £000</i>
At 1 January 2008	44	5,133	8,118	13,295
Charged in the year	-	5,422	(1,859)	3,563
Utilised in the year	(44)	(2,902)	-	(2,946)
At 31 December 2008	-	7,653	6,259	13,912

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.

As a result of the administration of the MG Rover Group, the company had previously taken the commercial decision to honour warranties for customers who purchased an MG Rover from the company. The warranties have now all expired and consequently no provision is carried forward.

Details of the deferred taxation provided in the accounts are included in note 8(c).

19. SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>No.</i>	<i>No.</i>	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each	1,000,000	1,000,000	999	999

Notes to the Financial Statements

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20. RESERVES

Group

	<i>Capital redemption reserve £000</i>	<i>Capital reserve £000</i>	<i>Profit and loss account £000</i>
At 1 January 2008	1	612	337,164
Profit for the year	-	-	24,357
Dividends	-	-	(899)
At 31 December 2008	1	612	360,622

Company

	<i>Capital redemption reserve £000</i>	<i>Capital reserve £000</i>	<i>Profit and loss account £000</i>
At 1 January 2008	1	2,646	261,758
Profit for the year	-	-	29,163
Dividends	-	-	(899)
At 31 December 2008	1	2,646	290,022

21. MOVEMENT IN SHAREHOLDERS' FUNDS

Group

	<i>2008 £000</i>	<i>2007 £000</i>
Shareholders' funds at 1 January	338,776	287,663
Profit for the year	24,357	51,563
Dividends	(899)	(450)
Shareholders' funds at 31 December	362,234	338,776

Notes to the Financial Statements

for the year ended 31 December 2008

22. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2008 £000	2007 £000
Operating profit	55,343	84,874
Depreciation of tangible fixed assets	97,620	91,119
Net amortisation of goodwill	2,021	1,195
Write down of investments	62	-
Gain on disposal of fixed assets	(1,122)	(1,182)
Decrease / (increase) in stocks	53,901	(17,434)
Decrease in debtors	13,765	281
(Decrease) / increase in creditors	(21,228)	14,172
Increase in provisions	2,484	185
Net cash inflow from operating activities	202,846	173,210

(b) Analysis of net debt

	At 1 January 2008 £000	Cash flows £000	Other non-cash movements £000	At 31 December 2008 £000
Cash at bank and in hand	22,001	23,653	-	45,654
Hire purchase contracts	(313,861)	34,075	-	(279,786)
Loans	(2,954)	2,954	(214)	(214)
	(294,814)	60,682	(214)	(234,346)

The non-cash loan movements represents £214,000 in respect of loan notes issued in 2008 as part of the consideration for the acquisition of R H Patterson & Co Limited.

23. CAPITAL COMMITMENTS

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

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Contracted but not provided for	3,844	10,531	3,694	10,033
Authorised but not contracted	8,811	10,645	8,811	10,610
	12,655	21,176	12,505	20,643

Notes to the Financial Statements

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24. OTHER FINANCIAL COMMITMENTS

In addition to buy back vehicles referred to in notes 12 and 14, the company has undertaken to repurchase certain motor vehicles throughout 2009. 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.

25. 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 2008 the Value Added Tax payable by other members of the group registration amounted to £1,435,000 (2007 - £1,393,000).

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 2008, the other companies included in the guarantee had net funds of £8,282,000 (2007 - £20,454,000) due from The Royal Bank of Scotland plc.

26. ULTIMATE CONTROLLING PARTY

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