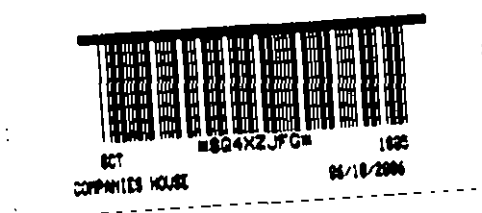




Report & Financial Statements
31 December 2005

Registered Number: 39597 (Scotland)





DIRECTORS, PRINCIPAL OFFICERS AND ADVISERS

DIRECTORS

Sir Arnold Clark *FINI* - Chairman
H D Wallace - Managing Director
E Hawthorne *BA CA* - Director
D M Cooper *B Acc (Hons) FCLA* - Director

PRINCIPAL OFFICERS

A J Clark - General Manager Hire Drive
D F Kerr *MA (Lancs)* - Company Secretary

REGISTERED OFFICE

134 Nithsdale Drive
Glasgow G41 2PP

AUDITORS

Ernst & Young LLP
50 George Square
Glasgow G2 1RR

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

Bishops Solicitors LLP
2 Blythwood Square
Glasgow G2 4AD

MANAGING DIRECTOR'S STATEMENT

REVIEW

I am delighted to report that the company increased its turnover by 5.8% to £118.4m. Despite this growth, a sharp increase in our hire drive insurance premium, increased funding costs and accelerated depreciation required on MG Rover vehicles contributed to profit before tax falling to £1.05m.

The company is renowned throughout the industry for its unparalleled customer service. This was recently confirmed when the company was ranked number one in a report on 'Fleet Operators Attitudes to Contract Hire Companies'. The report was compiled by Sewells International, an independent research organisation who are well respected in the fleet community. Their research is based on customer surveys conducted with companies and public sector bodies throughout the UK, who use a variety of leasing companies. The report scores the UK's top 18 companies across a variety of disciplines with Arnold Clark Finance Limited achieving the best score overall.

GROWTH

In 2005 the contract hire fleet continued to grow in line with our expectations. With this expansion in mind we developed the additional Glasgow office space purchased in 2004, which now houses our corporate and public sector sales teams on one floor. The new Manchester sales team have now settled into their offices in the group's state of the art Honda dealership at Stretford. Our Aberdeen sales team moved into offices above the group's Lexus dealership and we have expanded and moved our Edinburgh office to the newly developed Peugeot dealership at Seafield Road. Activa, our southern contract hire division, also moved into larger premises in Milton Keynes due to the expansion of the business.

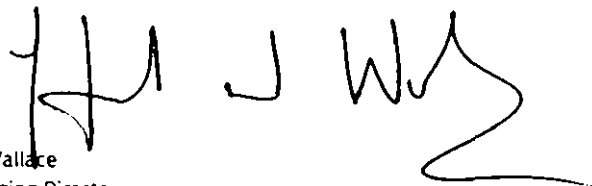
MANAGING DIRECTOR'S STATEMENT

STAFF

The company employs in excess of 550 staff. Our success is attributed to an extremely devoted workforce which displays immense loyalty to the company; evident in our admirably low levels of staff turnover. Experienced and reliable, our employees value the importance of strong customer relationships and I wish to record my gratitude to all of them for their sustained hard work.

OUTLOOK

Due to the continued consolidation of the larger contract hire companies, we feel our high level of personal service leaves us very well positioned in the market. As early as January 2006, we have managed to retain one of our largest customers for an additional three years. It is also pleasing that Hire Drive have started 2006 significantly better than 2005. The combination of all of the above factors gives us a great deal of confidence for 2006.



H D Wallace
Managing Director
16 March 2006

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2005.

RESULTS AND DIVIDENDS

The profit on ordinary activities before taxation amounted to £1,049,000. The trading profit for the year, after taxation, amounted to £718,000.

The directors recommend that no dividend be paid which leaves the profit of £718,000 to be retained.

REVIEW OF THE BUSINESS

The company's principal activity during the year was the hiring of motor vehicles.

The balance sheet discloses net current liabilities of £107 million arising primarily as a result of hire purchase payments due on contract hire vehicles. These payments will be met from vehicle rental incomes receivable in 2006 under the relevant contract hire agreements.

EMPLOYEES

The group's policy on employee matters, including policy on disabled employees, is contained within the Directors' Report of Arnold Clark Automobiles Limited.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year and at the date of this report are:

Sir Arnold Clark
H D Wallace
E Hawthorne
D M Cooper

No director had any interest in the ordinary share capital of the company during the year. The interests of Sir Arnold Clark in the share capital of Arnold Clark Automobiles Limited, the ultimate holding company, are disclosed in those financial statements. H D Wallace, E Hawthorne and D M Cooper have no interest in the ordinary share capital of the holding company.

FINANCIAL RISK MANAGEMENT POLICY

The company'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 company's financial assets and liabilities are set out below.

Interest rate risk: The company 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 are entered into at floating interest rates. The company's interest income and expenses are therefore affected by movements in interest rates. The company does not undertake active hedging of this risk.

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

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

DIRECTORS' REPORT

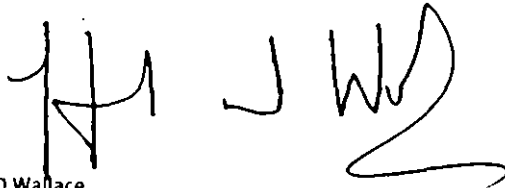
HEALTH AND SAFETY

The company recognises the importance of health and safety matters in all aspects of the running of its business. We employ four full time health and safety advisers, who update directors and managers on best practice, provide continual support, including a help-line, and carry out audits and reviews at all the company's locations. They liaise closely with the Quality Systems Manager and Property Manager and report to the Company Secretary. Accident trends are monitored carefully. The overall accident rate fell by 8% between 2004 and 2005. What is even more encouraging is that the rate for reportable lost-time accidents fell by 20%.

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



H D Wallace
Managing Director
16 March 2006

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 profit or loss of the company 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 company 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 company 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 company 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 Finance Limited

We have audited the company's financial statements for the year ended 31 December 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 17. These financial statements have been prepared on the basis of 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 are responsible 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) as 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 Managing Director'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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 affairs of the company as at 31 December 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Glasgow
16 March 2006

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
TURNOVER	2	118,424	111,947
Cost of sales		(87,675)	(80,259)
GROSS PROFIT		30,749	31,688
Administrative expenses		(14,668)	(14,452)
OPERATING PROFIT	3	16,081	17,236
Analysed as:			
Operating profit before exceptional items		16,603	17,236
Exceptional item	4	(522)	-
Interest payable	7	(15,032)	(14,099)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,049	3,137
Tax on profit on ordinary activities	8	(331)	(942)
PROFIT RETAINED FOR THE PERIOD	14	718	2,195

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 £718,000 in the year ended 31 December 2005 and the profit of £2,195,000 in the year ended 31 December 2004.

BALANCE SHEET

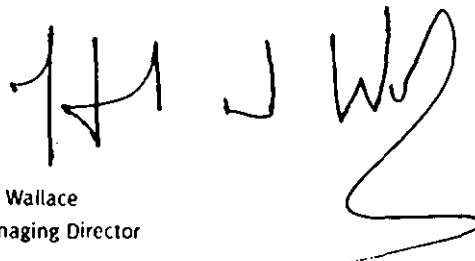
as at 31 December 2005

	Notes	2005 £000	2004 £000
FIXED ASSETS			
Tangible assets	9	277,537	287,302
CURRENT ASSETS			
Stocks		24,652	35,018
Debtors	10	11,427	13,035
Cash at bank and in hand		62,209	51,710
CREDITORS: amounts falling due within one year	11	98,288 (205,280)	99,763 (229,813)
NET CURRENT LIABILITIES		(106,992)	(130,050)
TOTAL ASSETS LESS CURRENT LIABILITIES		170,545	157,252
CREDITORS: amounts falling due after more than one year			
Obligations under hire purchase contracts	12	(110,271)	(96,961)
Rentals in advance		(4,946)	(4,530)
		(115,217)	(101,491)
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	8(c)	(20,842)	(21,993)
		34,486	33,768
CAPITAL AND RESERVES			
Called up share capital	13	15	15
Profit and loss account	14	34,471	33,753
EQUITY SHAREHOLDERS' FUNDS	14	34,486	33,768

Approved by the Board on 16 March 2006



Sir Arnold Clark
Chairman



H D Wallace
Managing Director

STATEMENT OF CASH FLOWS

for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	15(a)	104,993	55,941
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest element of hire purchase contracts		(15,199)	(13,583)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire fixed assets		(306,592)	(284,286)
Receipts from sales of fixed assets		248,381	235,945
		(58,211)	(48,341)
NET CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		31,583	(5,983)
FINANCING			
Repayment of capital element of hire purchase contracts		(276,083)	(266,339)
New hire purchase contracts		254,999	283,135
		(21,084)	16,796
INCREASE IN CASH		10,499	10,813
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
	Notes	2005 £000	2004 £000
Increase in cash		10,499	10,813
Repayment of capital element of hire purchase contracts		276,083	266,339
Inception of new hire purchase contracts		(254,999)	(283,135)
MOVEMENT IN NET DEBT		31,583	(5,983)
NET DEBT AT 1 JANUARY	15(b)	(232,335)	(226,352)
NET DEBT AT 31 DECEMBER	15(b)	(200,752)	(232,335)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Fixtures and fittings	-	15% (reducing balance basis)
Motor vehicles	-	20% (reducing balance basis)
Contract hire vehicles	-	straight line over the term of the contract
Computer equipment	-	40% (reducing balance basis)
Freehold property	-	2% (straight line basis)

Motor vehicles held for resale

Motor vehicles held for resale 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.

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;
- 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

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 company, 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.

2. TURNOVER

Turnover represents the amounts due for goods sold and services provided stated net of discounts and value added tax.

Rentals receivable on vehicles held for use in operating leases are recognised on a straight line basis over the term of the lease.

The turnover and pre-tax profit all arises in the United Kingdom and is attributable to the company's principal activity.

3. OPERATING PROFIT

	2005	2004
	£000	£000
This is stated after charging:		
Auditors' remuneration - audit services	20	18
Depreciation - owned assets	269	206
- assets under hire purchase contracts	67,707	60,522

4. EXCEPTIONAL ITEM

The exceptional item incurred during 2005 was in respect of the demise of the MG Rover Group and consisted of £522,000 in relation to additional depreciation on contract hire vehicles.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

5. STAFF COSTS

	2005 £000	2004 £000
Wages and salaries	8,809	9,163
Social security costs	877	842
	<u>9,686</u>	<u>10,005</u>

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

	2005 No.	2004 No.
Office and management	427	481
Sales	129	127
	<u>556</u>	<u>608</u>

6. DIRECTORS' EMOLUMENTS

	2005 £000	2004 £000
Emoluments	195	266

No director was a member of a company pension scheme.

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £000	2004 £000
Finance charges payable under hire purchase contracts	15,032	14,099

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

8. TAX

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2005 £000	2004 £000
<i>Current tax:</i>		
UK corporation tax	1,390	-
Group relief payable by parent undertaking	-	(613)
Tax under provided in previous years	92	-
Total current tax (note 8(b))	1,482	(613)
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(1,074)	1,555
Tax over provided in previous years	(77)	-
Total deferred tax charge (note 8(c))	(1,151)	1,555
Tax on profit on ordinary activities	331	942

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2004 - 30%). The differences are reconciled below:

	2005 £000	2004 £000
Profit on ordinary activities before tax	1,049	3,137
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004 - 30%)	314	942
Expenses not deductible for tax purposes	1	-
Decelerated / (accelerated) capital allowances	1,075	(1,555)
Tax under provided in previous years	92	-
Total current tax (note 8(a))	1,482	(613)

(c) Deferred tax

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

	2005 £000	2004 £000
Accelerated capital allowances	20,842	21,993
		£000
At 1 January 2005		21,993
Deferred tax charge in profit and loss account (note 8(a))		(1,151)
At 31 December 2005		20,842

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

9. TANGIBLE FIXED ASSETS

	Freehold property £000	Computer equipment £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
<i>Cost:</i>					
At 1 January 2005	127	1,585	384,850	279	386,841
Additions	-	142	306,448	2	306,592
Disposals	-	-	(305,951)	-	(305,951)
At 31 December 2005	127	1,727	385,347	281	387,482
<i>Depreciation:</i>					
At 1 January 2005	40	1,324	98,040	135	99,539
Provided during the period	3	244	67,707	22	67,976
Disposals	-	-	(57,570)	-	(57,570)
At 31 December 2005	43	1,568	108,177	157	109,945
<i>Net book value:</i>					
At 31 December 2005	84	159	277,170	124	277,537
At 31 December 2004	87	261	286,810	144	287,302

All of the company's motor vehicles are purchased by way of hire purchase agreements and are held for use in operating leases.

10. DEBTORS

	2005 £000	2004 £000
Trade debtors	8,185	8,583
Other debtors	977	1,601
Prepayments and accrued income	2,265	2,851
	<u>11,427</u>	<u>13,035</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

11. CREDITORS: amounts falling due within one year

	2005 £000	2004 £000
Obligations under hire purchase contracts (note 12)	152,690	187,084
Trade creditors	5,593	1,627
Current corporation tax	1,390	-
Other taxes and social security costs	2,898	588
Other creditors	7,261	6,342
Accruals and deferred income	23,623	22,585
Amounts due to group undertakings	11,825	11,587
	<u>205,280</u>	<u>229,813</u>

12. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

	2005 £000	2004 £000
<i>Amounts payable:</i>		
Within one year (note 11)	152,690	187,084
In two to five years	110,271	96,961
	<u>262,961</u>	<u>284,045</u>

13. SHARE CAPITAL

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	2005 No.	2004 No.	2005 £000	2004 £000
Ordinary shares of £1 each	15,000	15,000	15	15

14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total shareholders' funds £000</i>
At 1 January 2005	15	33,753	33,768
Profit for the year	-	718	718
At 31 December 2005	<u>15</u>	<u>34,471</u>	<u>34,486</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

15. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2005 £000	2004 £000
Operating profit	16,081	17,236
Depreciation	67,976	60,728
Decrease/(increase) in motor vehicles held for resale	10,366	(35,018)
Decrease in debtors	1,608	1,167
Increase in creditors	8,962	11,828
Net cash inflow from operating activities	104,993	55,941

(b) Analysis of net debt

	At 1 January 2005 £000	Cash flow £000	At 31 December 2005 £000
Cash at bank and in hand	51,710	10,499	62,209
Hire purchase contracts	(284,045)	21,084	(262,961)
	(232,335)	31,583	(200,752)

16. CONTINGENT ASSETS/LIABILITIES

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 2005 this amounted to VAT payable of £1,639,000 (2004 - £2,081,000 receivable).

Under the terms of an inter company guarantee granted to The Royal Bank of Scotland plc the company has, together with Arnold Clark Automobiles Limited, Macharg Rennie & Lindsay Limited and Arnold Clark Insurance Services Limited, jointly and severally guaranteed repayment of all sums due to The Royal Bank of Scotland plc by any of the parties to the guarantee.

17. ULTIMATE PARENT COMPANY

The directors report that Arnold Clark Automobiles Limited (registered in Scotland) is the company's ultimate parent company. This is the only parent undertaking for which group financial statements are drawn up and of which the company is a member. The address from which copies of these group financial statements are available to the public is: The Registrar of Companies, Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB.

The Company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are part of the Arnold Clark Automobiles Limited group.