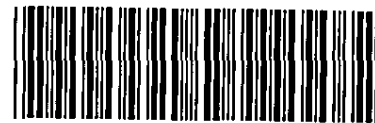


50039597

**Arnold Clark Finance Limited
Report & Financial Statements**

31 December 2010

FRIDAY



SCT *SRBWZXSE* 782
23/09/2011
COMPANIES HOUSE

Directors, Principal Officers and Advisers

Directors
Sir Arnold Clark DUniv FIMI - Chairman
H D Wallace - Managing Director
E Hawthorne BA CA - Director
D M Cooper B Acc (Hons) FCCA - Director

Principal Officers
A J Clark - General Manager Hire Drive
D F Kerr MA (Contab) - Company Secretary
A J Gillon - General Manager Public Sector

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

Managing Director's Statement

Review

Following the success of 2009, I am delighted to report that the company increased its turnover by 9.1% to achieve a new record figure of £155.1m. Residual values on used cars continued to be strong during 2010 and this, accompanied by low interest rates, contributed to profits before tax of £8.0m. In an extremely competitive market, it was very encouraging to note that we managed to renew contracts with four large customers for an additional three years. Our daily rental business continued to improve and, although our unit income fell by just under 1% compared with 2009, we still managed to increase our total turnover by 8.5%. Our continued focus on overheads meant that there were no significant increases over 2009, resulting in a very satisfactory performance for the year.

Growth

The total fleet continued to grow in line with our expectations owing to the consolidation of existing customer partnerships as well as a sustained effort to develop new business. The contract hire fleet increased by 6.2% to 34,297 vehicles although our managed customer vehicles reduced by 3.6% to 59,765.

Staff

Our long term success can be attributed to the enthusiasm and professionalism of all our staff and I wish to record my gratitude to all of them for their dedication and commitment. Displaying immense loyalty to the company, our staff take great pride in their ability to build and maintain strong relationships with our customers.

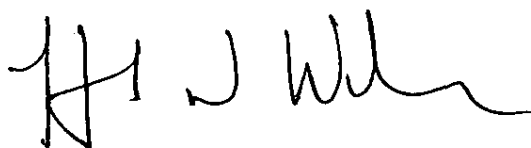
Outlook

The market expectation for 2011 is that vehicle registrations in the UK will not change significantly and, with the current prolonged wait for factory ordered vehicles, I have no reason to disagree with the prevailing view that residual values will remain strong in 2011.

During 2010 we commenced development of our new salary sacrifice car scheme which we have named "Optimizer". Optimizer will be completed by the end of the first quarter of 2011, and is designed to increase the value of rewards an employer can offer their workforce, without adding to their costs.

2011 has already started well as we have been re-appointed in January as main vehicle providers for another three years with two of our largest customers.

As part of one of the largest privately owned vehicle retailers in Europe, the success of the group during the recent difficult economic times allows us to continue to provide an unparalleled level of service to all our customers. I believe this will result in further expansion in 2011 and look forward to what promises to be an exciting year.



H D Wallace
Managing Director
14 March 2011

Directors' Report

Results and dividends

The profit on ordinary activities before taxation amounted to £8,025,000. The profit for the year after taxation amounted to £6,460,000.

The directors do not recommend a dividend leaving £6,460,000 to be transferred to reserves.

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 £158 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 the future under the relevant contract hire agreements.

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

| | 2010 | 2009 | Change |
|---------------------------|--------|--------|--------|
| Turnover | £155m | £142m | 9.1% |
| Contract hire fleet | 34,297 | 32,303 | 6.2% |
| Managed customer vehicles | 59,765 | 61,987 | (3.6%) |

The increases in turnover and the contract hire fleet during the year are all entirely attributable to the continued organic growth of the company. The forecasts for 2011 are for this trend to continue.

Principal risks and uncertainties

The company's principal financial instruments comprise cash, cash equivalents 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.

General economic conditions: The company's performance is influenced by general economic conditions and business confidence. Business confidence in the UK remains fragile as a result of the wider economic conditions and therefore discretionary expenditure has been reduced by many customers, which may impact the number and type of vehicles taken on contract in the year.

Employee involvement

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

Directors' Report

Disabled employees

The company 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 company has continued to examine ways and means of providing continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Directors' statement as to disclosure of information to auditors

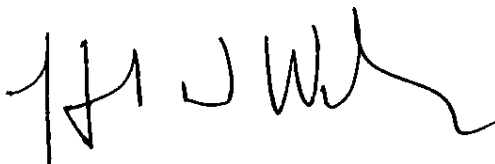
The directors who were members of the board at the time of approving the Directors' Report are listed on page 3. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- 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



H D Wallace
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 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 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 company 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 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 financial statements of Arnold Clark Finance Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, the Statement of Cash Flows and the related notes 1 to 17. 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 5, 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 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 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 company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

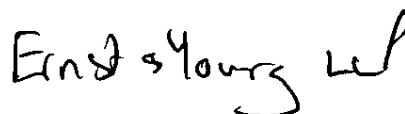
Opinion on other matter prescribed by the Companies Act 2006

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.



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

14 March 2011

Profit & Loss Account

for the year ended 31 December 2010

| | Notes | 2010 £000 | 2009 £000 |
|---|-------|--------------|--------------|
| Turnover | 2 | 155,092 | 142,140 |
| Cost of sales | | (118,732) | (107,236) |
| Gross profit | | 36,360 | 34,904 |
| Administrative expenses | | (21,692) | (21,477) |
| Operating profit | 3 | 14,668 | 13,427 |
| Interest payable | 6 | (6,643) | (6,922) |
| Profit on ordinary activities before taxation | | 8,025 | 6,505 |
| Tax on profit on ordinary activities | 7 | (1,565) | (1,808) |
| Profit on ordinary activities after taxation | 14 | 6,460 | 4,697 |

All operations were classed as continuing operations during the year.

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 £6,460,000 in the year ended 31 December 2010 and the profit attributable to shareholders of the company of £4,697,000 in the year ended 31 December 2009.

Balance Sheet

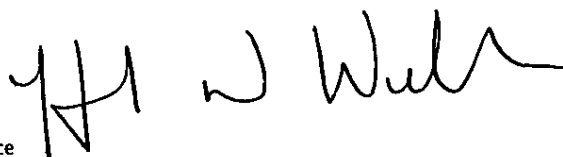
at 31 December 2010

| | Notes | 2010 £000 | 2009 £000 |
|--|-------|--------------|--------------|
| Fixed assets | | | |
| Tangible assets | 8 | 374,949 | 364,397 |
| Current assets | | | |
| Stocks | | 12,327 | 17,840 |
| Debtors | 9 | 12,919 | 16,204 |
| Cash at bank and in hand | | 33,074 | 28,731 |
| | | 58,320 | 62,775 |
| Creditors: amounts falling due within one year | 10 | (216,501) | (229,879) |
| Net current liabilities | | (158,181) | (167,104) |
| Total assets less current liabilities | | 216,768 | 197,293 |
| Creditors: amounts falling due after more than one year | 11 | (163,646) | (148,819) |
| Provisions for liabilities and charges | | | |
| Deferred taxation | 7(c) | (18,603) | (20,415) |
| Net assets | | 34,519 | 28,059 |
| Capital and reserves | | | |
| Called up share capital | 13 | 15 | 15 |
| Profit and loss account | 14 | 34,504 | 28,044 |
| Equity shareholders' funds | 14 | 34,519 | 28,059 |

Approved by the Board on 14 March 2011



Sir Arnold Clark
Chairman



H D Wallace
Managing Director

Statement of Cash Flows

for the year ended 31 December 2010

| | Notes | 2010 £000 | 2009 £000 |
|--|-------|--------------|--------------|
| Net cash inflow from operating activities | 15(a) | 123,141 | 104,432 |
| Returns on investments and servicing of finance | | | |
| Interest element of hire purchase contracts received | | (6,574) | (6,843) |
| Taxation paid | | (1,228) | (1,612) |
| Capital expenditure and financial investment | | | |
| Payments to acquire fixed assets | | (312,270) | (325,462) |
| Receipts from sales of fixed assets | | 203,941 | 198,518 |
| | | (108,329) | (126,944) |
| Net cash inflow before financing | | 7,010 | (30,967) |
| Financing | | | |
| Repayment of capital element of hire purchase contracts | | (271,841) | (262,738) |
| New hire purchase contracts | | 269,174 | 306,910 |
| | | (2,667) | 44,172 |
| Increase in cash | | 4,343 | 13,205 |
| Reconciliation of net cash flow to movement in net debt | | | |
| | Notes | 2010 £000 | 2009 £000 |
| Increase in cash | | 4,343 | 13,205 |
| Repayment of capital element of hire purchase contracts | | 271,841 | 262,738 |
| Inception of new hire purchase contracts | | (269,174) | (306,910) |
| Movement in net debt | | 7,010 | (30,967) |
| Net debt at 1 January | 15(b) | (295,227) | (264,260) |
| Net debt at 31 December | 15(b) | (288,217) | (295,227) |

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 and in accordance with applicable accounting standards.

Going concern

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

The company funds vehicles purchased for the company's 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 company's net current liabilities position at the year end. The directors have reviewed the company'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 company 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.

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 over its expected useful life, as follows:

| | | |
|--------------------------|---|--|
| Freehold property | - | 2% (straight line basis) |
| Fixtures and fittings | - | 15% (reducing balance basis) |
| Computer equipment | - | 40% (reducing balance basis) |
| Motor vehicles : Own use | - | 20% or 25% (reducing balance basis) |
| : Contract hire vehicles | - | straight line over the term of the hire contract |

Stock

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.

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.

Notes to the Financial Statements

for the year ended 31 December 2010

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;
- 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.

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 maintenance element of any rental payment is recognised as the maintenance is performed.

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

3. Operating profit

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| This is stated after charging / (crediting): | | |
| Auditors' remuneration - audit services | 25 | 25 |
| Depreciation - owned assets | 282 | 479 |
| - assets held under hire purchase contracts | 97,495 | 83,357 |
| Gain on sale of land and buildings | - | (66) |

Notes to the Financial Statements

for the year ended 31 December 2010

4. Staff costs

| | 2010 £000 | 2009 £000 |
|----------------------|---------------|---------------|
| Wages and salaries | 11,257 | 11,031 |
| Social security cost | 996 | 971 |
| Pension costs | 43 | 23 |
| | <u>12,296</u> | <u>12,025</u> |

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

| | 2010 No. | 2009 No. |
|-----------------------|-------------|-------------|
| Office and management | 402 | 405 |
| Sales | 156 | 156 |
| | <u>558</u> | <u>561</u> |

5. Directors' emoluments

| | 2010 £000 | 2009 £000 |
|------------|--------------|--------------|
| Emoluments | 184 | 198 |

6. Interest payable and similar charges

| | 2010 £000 | 2009 £000 |
|---|--------------|--------------|
| Finance charges payable under hire purchase contracts | 6,643 | 6,922 |

7. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

| | 2010 £000 | 2009 £000 |
|---|----------------|--------------|
| <i>Current tax:</i> | | |
| UK corporation tax | 3,566 | 1,417 |
| Adjustments in respect of previous years | (189) | 172 |
| Total current tax (note 7(b)) | <u>3,377</u> | <u>1,589</u> |
| <i>Deferred tax:</i> | | |
| Origination and reversal of timing differences | (1,269) | 388 |
| Effect of decreased tax rate on opening liability | (736) | - |
| Adjustments in respect of previous years | 193 | (169) |
| Total deferred tax charge (note 7(c)) | <u>(1,812)</u> | <u>219</u> |
| Tax on profit on ordinary activities | <u>1,565</u> | <u>1,808</u> |

Notes to the Financial Statements

for the year ended 31 December 2010

7. Tax (continued)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher (2009 - lower) 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 | 8,025 | 6,505 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 - 28%) | 2,247 | 1,821 |
| Expenses not deductible for tax purposes | 3 | 2 |
| Decelerated / (accelerated) capital allowances | 1,316 | (387) |
| Rollover relief on property gain | - | (19) |
| Adjustments in respect of previous years | (189) | 172 |
| Total current tax (note 7(a)) | 3,377 | 1,589 |

(c) Deferred tax

The deferred tax included in provisions for liabilities and charges within the balance sheet is as follows:

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Accelerated capital allowances | 18,603 | 20,415 |
| | | £000 |
| At 1 January 2010 | | 20,415 |
| Deferred tax charge in profit and loss account (note 7(a)) | | (1,812) |
| At 31 December 2010 | | 18,603 |

(d) Factors that may affect future tax charges

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 company at 31 December 2010 would be reduced by £2,067,000.

Notes to the Financial Statements

for the year ended 31 December 2010

8. Tangible fixed assets

| | Freehold property £000 | Computer equipment £000 | Motor vehicles £000 | Fixtures and fittings £000 | Total £000 |
|--------------------------|------------------------------|-------------------------------|---------------------------|-------------------------------------|---------------|
| <i>Cost:</i> | | | | | |
| At 1 January 2010 | 71 | 2,762 | 500,731 | 758 | 504,322 |
| Additions | - | 47 | 312,168 | 55 | 312,270 |
| Disposals | - | - | (284,382) | - | (284,382) |
| At 31 December 2010 | 71 | 2,809 | 528,517 | 813 | 532,210 |
| <i>Depreciation:</i> | | | | | |
| At 1 January 2010 | 31 | 2,548 | 136,933 | 413 | 139,925 |
| Provided during the year | 2 | 217 | 97,495 | 63 | 97,777 |
| Disposals | - | - | (80,441) | - | (80,441) |
| At 31 December 2010 | 33 | 2,765 | 153,987 | 476 | 157,261 |
| <i>Net book value:</i> | | | | | |
| At 31 December 2010 | 38 | 44 | 374,530 | 337 | 374,949 |
| At 31 December 2009 | 40 | 214 | 363,798 | 345 | 364,397 |

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

9. Debtors

| | 2010 £000 | 2009 £000 |
|--------------------------------|---------------|---------------|
| Trade debtors | 9,589 | 10,196 |
| Other debtors | 744 | 1,337 |
| VAT receivable from HMRC | - | 1,944 |
| Prepayments and accrued income | 2,586 | 2,727 |
| | <u>12,919</u> | <u>16,204</u> |

10. Creditors: amounts falling due within one year

| | 2010 £000 | 2009 £000 |
|---|----------------|----------------|
| Obligations under hire purchase contracts (note 12) | 161,483 | 179,023 |
| Trade creditors | 520 | 1,422 |
| Current corporation tax | 3,566 | 1,417 |
| Other taxes and social security costs | 2,221 | - |
| Other creditors | 11,921 | 9,839 |
| Accruals and deferred income | 31,501 | 31,104 |
| Amounts due to group undertakings | 5,289 | 7,074 |
| | <u>216,501</u> | <u>229,879</u> |

Notes to the Financial Statements

for the year ended 31 December 2010

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

| | 2010 £000 | 2009 £000 |
|---|----------------|----------------|
| Obligations under hire purchase contracts (note 12) | 159,808 | 144,935 |
| Rentals in advance | 3,838 | 3,884 |
| | <u>163,646</u> | <u>148,819</u> |

12. Obligations under hire purchase contracts

| | 2010 £000 | 2009 £000 |
|--------------------------------|----------------|----------------|
| <i>Amounts payable:</i> | | |
| Within one year (note 10) | 161,483 | 179,023 |
| In two to five years (note 11) | 159,808 | 144,935 |
| | <u>321,291</u> | <u>323,958</u> |

13. Share capital

| | 2010 No. | Authorised 2009 No. | Allotted, called up and fully paid 2010 £000 | 2009 £000 |
|----------------------------|-------------|---------------------------|---|--------------|
| Ordinary shares of £1 each | 15,000 | 15,000 | 15 | 15 |

14. Reconciliation of shareholders' funds and movement on reserves

| | Share capital £000 | Profit and loss account £000 | Total shareholders' funds £000 |
|---------------------|--------------------------|---------------------------------------|---|
| At 1 January 2010 | 15 | 28,044 | 28,059 |
| Profit for the year | - | 6,460 | 6,460 |
| At 31 December 2010 | <u>15</u> | <u>34,504</u> | <u>34,519</u> |

Notes to the Financial Statements

for the year ended 31 December 2010

15. 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 | 14,668 | 13,427 |
| Depreciation | 97,777 | 83,836 |
| Gain on disposal of fixed assets | - | (66) |
| Decrease / (increase) in motor vehicles held for resale | 5,513 | 116 |
| Decrease / (increase) in debtors | 3,285 | 95 |
| Increase / (decrease) in creditors | 1,898 | 7,024 |
| Net cash inflow from operating activities | 123,141 | 104,432 |

(b) Analysis of net debt

| | At 1 January 2010 £000 | Cash flow £000 | At 31 December 2010 £000 |
|--------------------------|---------------------------------|----------------------|-----------------------------------|
| Cash at bank and in hand | 28,731 | 4,343 | 33,074 |
| Hire purchase contracts | (323,958) | 2,667 | (321,291) |
| | (295,227) | 7,010 | (288,217) |

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 2010 the Value Added Tax payable by other members of the group registration amounted to £905,000 (2009 - £11,402,000 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 £40,004,000 due from (2009 - net debts of £10,500,000 due to) The Royal Bank of Scotland plc.

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 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 Arnold Clark Automobiles Limited group.