

SC39597

ARNOLD CLARK FINANCE LIMITED
Report and Accounts
31 December 2001



SCT S3N5NED1 0430
COMPANIES HOUSE 20/09/02

DIRECTORS, PRINCIPAL OFFICERS AND ADVISERS

DIRECTORS

| | | | |
|-------------|-------|---|-------------------|
| J A Clark | FIMI | - | Chairman |
| H D Wallace | | - | Managing Director |
| E Hawthorne | BA CA | - | Director |

PRINCIPAL OFFICERS

| | | | |
|------------|-------------------|---|----------------------------|
| D M Cooper | B Acc (Hons) ACCA | - | Financial Controller |
| A J Clark | | - | General Manager Hire Drive |
| D F Kerr | MA (Cantab) | - | Company Secretary |

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
95 Bothwell Street
Glasgow G2 7JZ

SOLICITORS

HBM Sayers
13 Bath Street
Glasgow G2 1HY

Morison Bishop
2 Blythswood Square
Glasgow G2 4AD

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31 December 2001.

RESULTS AND DIVIDENDS

The profit on ordinary activities before taxation amounted to £1,006,000. The trading profit for the year, after taxation, amounted to £637,000.

The directors recommend that no dividend be paid which leaves the profit of £637,000 to be retained.

REVIEW OF THE BUSINESS

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

The directors are pleased to report that the company's sales activity has increased by 7% over 2000 results, in line with their strategy to increase the fleet. The directors consider these results to be satisfactory.

The balance sheet discloses net current liabilities of £65 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 2002 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:

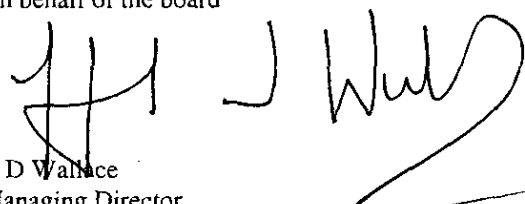
J A Clark
H D Wallace
E Hawthorne

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

AUDITORS

On 28 June 2001, Ernst & Young, the company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the board


H D Wallace
Managing Director

28 February 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, 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 accounts; and
- prepare the accounts 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 accounts 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 2001 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows, Notes to the Statement of Cash Flows, and the related notes 1 to 18. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

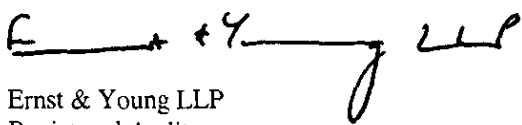
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 of the state of affairs of the company as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Glasgow

28 February 2002

Arnold Clark Finance Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2001

| | Notes | 2001 £000 | 2000 £000 |
|--|-------|--------------|--------------|
| TURNOVER | 2 | 72,857 | 67,709 |
| Cost of sales | | 53,270 | 49,258 |
| GROSS PROFIT | | 19,587 | 18,451 |
| Administrative expenses | | 10,783 | 8,860 |
| OPERATING PROFIT | 3 | 8,804 | 9,591 |
| Interest receivable | | - | 30 |
| Interest payable | 6 | (7,798) | (8,199) |
| | | 7,798 | 8,169 |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | 1,006 | 1,422 |
| Tax on profit on ordinary activities | 7 | 369 | 890 |
| PROFIT RETAINED FOR THE FINANCIAL YEAR | | 637 | 532 |

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 £637,000 in the year ended 31 December 2001 and of £532,000 in the year ended 31 December 2000.

Arnold Clark Finance Limited

BALANCE SHEET at 31 December 2001

| | Notes | 2001 £000 | 2000 £000 |
|--|-------|--------------|--------------|
| FIXED ASSETS | | | |
| Tangible assets | 8 | 180,812 | 145,358 |
| CURRENT ASSETS | | | |
| Debtors | 9 | 9,116 | 9,426 |
| Cash at bank and in hand | 11 | 32,775 | 26,152 |
| | | 41,891 | 35,578 |
| CREDITORS: amounts falling due within one year | 10 | 106,904 | 83,729 |
| NET CURRENT LIABILITIES | | 65,013 | 48,151 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 115,799 | 97,207 |
| CREDITORS: amounts falling due after more than one year | | | |
| Obligations under hire purchase contracts | 12 | 71,464 | 55,610 |
| Rentals in advance | | 3,034 | 2,673 |
| | | 74,498 | 58,283 |
| PROVISIONS FOR LIABILITIES AND CHARGES | | | |
| Deferred taxation | 13 | 12,388 | 10,648 |
| | | 28,913 | 28,276 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 14 | 15 | 15 |
| Profit and loss account | 15 | 28,898 | 28,261 |
| | | 28,913 | 28,276 |

ERNST & YOUNG

J A Clark
Chairman

H D Wallace
Managing Director

28 February 2002

Arnold Clark Finance Limited

STATEMENT OF CASH FLOWS for the year ended 31 December 2001

| | <i>Notes</i> | <i>2001</i> <i>£000</i> | <i>2000</i> <i>£000</i> |
|--|--------------|----------------------------|----------------------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 4 | 49,347 | 41,600 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | | | |
| Interest received | | - | 30 |
| Interest element of hire purchase contracts | | (7,582) | (7,989) |
| | | <u>(7,582)</u> | <u>(7,959)</u> |
| TAXATION RECEIVED | | <u>60</u> | <u>550</u> |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | | | |
| Payments to acquire fixed assets | | (157,575) | (119,136) |
| Receipts from sales of fixed assets | | 83,967 | 83,357 |
| | | <u>(73,608)</u> | <u>(35,779)</u> |
| NET CASH OUTFLOW BEFORE USE OF MANAGEMENT OF LIQUID RESOURCES AND FINANCING | | <u>(31,783)</u> | <u>(1,588)</u> |
| FINANCING | | | |
| Repayment of capital element of hire purchase contracts | | (116,235) | (101,842) |
| New hire purchase contracts | | 154,641 | 106,141 |
| | | <u>38,406</u> | <u>4,299</u> |
| INCREASE IN CASH | | <u><u>6,623</u></u> | <u><u>2,711</u></u> |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | <i>Notes</i> | <i>2001</i> <i>£000</i> | <i>2000</i> <i>£000</i> |
|---|--------------|----------------------------|----------------------------|
| Increase in cash | | 6,623 | 2,711 |
| Repayment of capital element of hire purchase contracts | | 116,235 | 101,842 |
| New hire purchase contracts | | (154,641) | (106,141) |
| MOVEMENT IN NET DEBT | | <u>(31,783)</u> | <u>(1,588)</u> |
| NET DEBT AT 1 JANUARY | | <u>(93,209)</u> | <u>(91,621)</u> |
| NET DEBT AT 31 DECEMBER | 11 | <u><u>(124,992)</u></u> | <u><u>(93,209)</u></u> |

NOTES TO THE ACCOUNTS
at 31 December 2001

1. ACCOUNTING POLICIES

Accounting convention

The accounts 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) |
| Computer equipment | - 40% (reducing balance basis) |
| Freehold property | - 2% (straight line basis) |

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable. Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is relatively certain.

Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the contract and represents a constant proportion of the balance of capital repayments outstanding.

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

2. TURNOVER

Turnover represents the invoiced amount of goods sold and services provided (stated net of value added tax).

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

3. OPERATING PROFIT

| | 2001 £000 | 2000 £000 |
|---|--------------|--------------|
| (a) This is stated after charging: | | |
| Directors' remuneration (see below) | 137 | 125 |
| Auditors' remuneration - audit services | 14 | 14 |
| Depreciation - owned assets | 220 | 175 |
| - assets under hire purchase contracts | 37,934 | 30,655 |
| Loss on disposal of fixed assets | - | - |
| | <hr/> | <hr/> |
| (b) Directors' remuneration: | | |
| Aggregate Disclosures | | |
| Emoluments | 137 | 125 |
| | <hr/> | <hr/> |

No director was a member of a company pension scheme.

NOTES TO THE ACCOUNTS
at 31 December 2001

4. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2001 £000 | 2000 £000 |
|---|--------------|--------------|
| Operating profit | 8,804 | 9,591 |
| Depreciation | 38,154 | 30,830 |
| Decrease in debtors | 245 | 529 |
| Increase in creditors | 2,144 | 650 |
| Net cash inflow from operating activities | 49,347 | 41,600 |

5. STAFF COSTS

| | 2001 £000 | 2000 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 5,852 | 5,090 |
| Social security costs | 470 | 455 |
| | 6,322 | 5,545 |

The average weekly number of employees during the year was made up as follows:

| | No. | No. |
|-----------------------|-----|-----|
| Office and management | 386 | 348 |
| Sales | 97 | 99 |
| | 483 | 447 |

6. INTEREST PAYABLE

| | 2001 £000 | 2000 £000 |
|---------------------------------------|--------------|--------------|
| Payable under hire purchase contracts | 7,798 | 8,199 |

7. TAXATION CHARGE

| | 2001 £000 | 2000 £000 |
|---|--------------|--------------|
| Based on the profit for the year: | | |
| Deferred taxation | 1,679 | 933 |
| Group relief payable by parent undertaking | (1,376) | - |
| | 303 | 933 |
| Taxation under/(over) provided in previous years: | | |
| Corporation tax | 5 | (132) |
| Deferred tax | 61 | 89 |
| | 369 | 890 |

Arnold Clark Finance Limited

NOTES TO THE ACCOUNTS at 31 December 2001

8. TANGIBLE FIXED ASSETS

| | <i>Freehold property £000</i> | <i>Computer equipment £000</i> | <i>Motor vehicles £000</i> | <i>Fixtures and fittings £000</i> | <i>Total £000</i> |
|--------------------------|---------------------------------------|--|------------------------------------|---|-----------------------|
| Cost: | | | | | |
| At 1 January 2001 | 127 | 915 | 190,140 | 127 | 191,309 |
| Additions | - | 255 | 157,305 | 15 | 157,575 |
| Disposals | - | - | (107,693) | - | (107,693) |
| At 31 December 2001 | 127 | 1,170 | 239,752 | 142 | 241,191 |
| Depreciation: | | | | | |
| At 1 January 2001 | 30 | 677 | 45,196 | 48 | 45,951 |
| Provided during the year | 3 | 203 | 37,934 | 14 | 38,154 |
| Disposals | - | - | (23,726) | - | (23,726) |
| At 31 December 2001 | 33 | 880 | 59,404 | 62 | 60,379 |
| Net book value: | | | | | |
| At 31 December 2001 | 94 | 290 | 180,348 | 80 | 180,812 |
| At 1 January 2001 | 97 | 238 | 144,944 | 79 | 145,358 |

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

| | <i>2001 £000</i> | <i>2000 £000</i> |
|--------------------------------|----------------------|----------------------|
| Trade debtors | 5,504 | 5,772 |
| Other debtors | 940 | 1,917 |
| Prepayments and accrued income | 1,675 | 1,645 |
| Corporation tax due | 27 | 92 |
| Amount owed by parent company | 970 | - |
| | 9,116 | 9,426 |

10. CREDITORS: amounts falling due within one year

| | <i>2001 £000</i> | <i>2000 £000</i> |
|---|----------------------|----------------------|
| Obligations under hire purchase contracts (note 12) | 86,303 | 63,751 |
| Trade creditors | 1,652 | 2,856 |
| Other taxes and social security costs | 2,221 | 2,432 |
| Other creditors | 3,753 | 4,064 |
| Accruals and deferred income | 12,388 | 10,502 |
| Amounts due to parent company | 587 | 110 |
| Amounts due to fellow subsidiaries | - | 14 |
| | 106,904 | 83,729 |

Arnold Clark Finance Limited

NOTES TO THE ACCOUNTS at 31 December 2001

11. ANALYSIS OF NET DEBT

| | <i>At 1 January 2001 £000</i> | <i>Cash flow £000</i> | <i>At 31 December 2001 £000</i> |
|--------------------------|---|-------------------------------|---|
| Cash at bank and in hand | 26,152 | 6,623 | 32,775 |
| Hire purchase contracts | (119,361) | (38,406) | (157,767) |
| | <u>(93,209)</u> | <u>(31,783)</u> | <u>(124,992)</u> |

12. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

| | <i>2001 £000</i> | <i>2000 £000</i> |
|---------------------------|----------------------|----------------------|
| Amounts payable: | | |
| Within one year (note 10) | 86,303 | 63,751 |
| In two to five years | 71,464 | 55,610 |
| | <u>157,767</u> | <u>119,361</u> |

13. DEFERRED TAXATION

Deferred taxation provided in the accounts is the full potential amount, and consists of:

| | <i>2001 £000</i> | <i>2000 £000</i> |
|--------------------------------|----------------------|----------------------|
| Accelerated capital allowances | 12,388 | 10,648 |

14. SHARE CAPITAL

| | <i>Authorised 2001 No.</i> | <i>2000 No.</i> | <i>Allotted, called up and fully paid 2001 £000</i> | <i>2000 £000</i> |
|----------------------------|------------------------------------|---------------------|---|----------------------|
| Ordinary shares of £1 each | 15,000 | 15,000 | 15 | 15 |

15. 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 2001 | 15 | 28,261 | 28,276 |
| Profit for the year | - | 637 | 637 |
| At 31 December 2001 | <u>15</u> | <u>28,898</u> | <u>28,913</u> |

NOTES TO THE ACCOUNTS

at 31 December 2001

16. OTHER FINANCIAL COMMITMENTS

As agents for Motability Finance Limited, the company is committed to purchase all vehicles which are in a suitable condition and have been maintained under a motability contract by the company upon the expiry of the contract. As at 31 December 2001 the company maintained 3,016 (2000 - 13,635) vehicles under contract with a pre-arranged purchase cost of £15,641,000 (2000 - £70,931,000) of which 3,016 (2000 - 12,170) with a pre-arranged purchase cost of £15,641,000 (2000 - £63,525,000) terminate within one year.

17. CONTINGENT LIABILITIES

Under a group registration for Value Added Tax the company is jointly and severally liable for Value Added Tax due by any member company of the group registration. At 31 December 2001 the liability amounted to £1,582,000 (2000 - £2,997,000).

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.

18. 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 accounts are drawn up and of which the company is a member. The address from which copies of these group accounts 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 or investees of the group.