

ARNOLD CLARK FINANCE LIMITED

Report and Accounts

31 December 2000



Arnold Clark Finance Limited

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
50 George Square
Glasgow G2 1RR

TAX ADVISERS

Grant Thornton
95 Bothwell Street
Glasgow G2 7JZ

SOLICITORS

HBM Sayers
33a Gordon Street
Glasgow G1 3PQ

Morison Bishop
2 Blythswood Square
Glasgow G2 4AD

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31 December 2000.

RESULTS AND DIVIDENDS

The profit on ordinary activities before taxation amounted to £1,422,000. The trading profit for the year, after taxation, amounted to £532,000.

The directors recommend that no dividend be paid which leaves the profit of £532,000 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 3% over 1999 results, in line with their strategy to increase the fleet. However, difficult trading conditions have impacted adversely on the company's pre-tax profit, which has declined by 50% from 1999.

The balance sheet discloses net current liabilities of £48 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 2001 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:

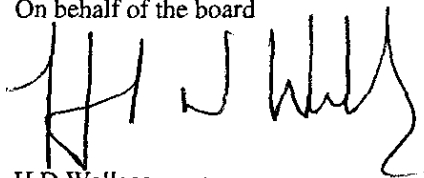
J A Clark
H D Wallace
E Hawthorne

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

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the annual general meeting. Ernst & Young has stated that, during 2001, it is intending to transfer its business to a limited liability partnership, incorporated under the Limited Liability Partnerships Act 2000, to be called Ernst & Young LLP. If this happens, it is the current intention of the Directors to use their statutory powers to treat the appointment of Ernst & Young as extending to Ernst & Young LLP.

On behalf of the board



H D Wallace
Managing Director

28 February 2001

Arnold Clark Finance Limited

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 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 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.

REPORT OF THE AUDITORS
to the shareholders of Arnold Clark Finance Limited

We have audited the accounts on pages 5 to 12 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3, the company's directors are responsible for the preparation of accounts in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

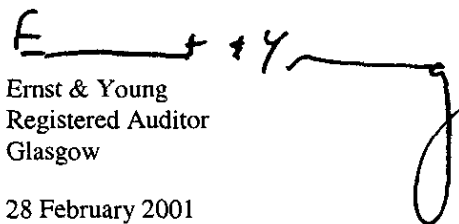
BASIS OF OPINION

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young
Registered Auditor
Glasgow
28 February 2001

Arnold Clark Finance Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2000

	Notes	2000 £000	1999 £000
TURNOVER	2	67,709	65,764
Cost of sales		49,258	47,542
GROSS PROFIT		18,451	18,222
Administrative expenses		8,860	8,324
OPERATING PROFIT	3	9,591	9,898
Interest receivable		30	-
Interest payable	6	(8,199)	(7,070)
		8,169	7,070
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,422	2,828
Tax on profit on ordinary activities	7	890	709
PROFIT RETAINED FOR THE FINANCIAL YEAR		532	2,119

RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £532,000 in the year ended 31 December 2000 and of £2,119,000 in the year ended 31 December 1999.

Arnold Clark Finance Limited

BALANCE SHEET at 31 December 2000

	Notes	2000 £000	1999 £000
FIXED ASSETS			
Tangible assets	8	145,358	140,409
CURRENT ASSETS			
Debtors	9	9,426	10,370
Cash at bank and in hand	11	26,152	23,441
		35,578	33,811
CREDITORS: amounts falling due within one year	10	83,729	83,906
NET CURRENT LIABILITIES		48,151	50,095
TOTAL ASSETS LESS CURRENT LIABILITIES		97,207	90,314
CREDITORS: amounts falling due after more than one year			
Obligations under hire purchase contracts	12	55,610	50,549
Rentals in advance		2,673	2,395
		58,283	52,944
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	13	10,648	9,626
		28,276	27,744
CAPITAL AND RESERVES			
Called up share capital	14	15	15
Profit and loss account	15	28,261	27,729
		28,276	27,744

J A Clark
Chairman

H D Wallace
Managing Director

28 February 2001

Arnold Clark Finance Limited

STATEMENT OF CASH FLOWS for the year ended 31 December 2000

	<i>Notes</i>	<i>2000</i> <i>£000</i>	<i>1999</i> <i>£000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	4	41,600	36,121
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		30	-
Interest element of hire purchase contracts		(7,989)	(7,167)
		<u>(7,959)</u>	<u>(7,167)</u>
TAXATION PAID		<u>550</u>	<u>-</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire fixed assets		(119,136)	(88,075)
Receipts from sales of fixed assets		83,357	45,165
		<u>(35,779)</u>	<u>(42,910)</u>
NET CASH OUTFLOW BEFORE USE OF MANAGEMENT OF LIQUID RESOURCES AND FINANCING		<u>(1,588)</u>	<u>(13,956)</u>
FINANCING			
Repayment of capital element of hire purchase contracts		(101,842)	(95,803)
New hire purchase contracts		106,141	105,591
		<u>4,299</u>	<u>9,788</u>
INCREASE/(DECREASE) IN CASH		<u>2,711</u>	<u>(4,168)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT			
	<i>Notes</i>	<i>2000</i> <i>£000</i>	<i>1999</i> <i>£000</i>
Increase/(decrease) in cash		2,711	(4,168)
Repayment of capital element of hire purchase contracts		101,842	95,803
New hire purchase contracts		(106,141)	(105,591)
MOVEMENT IN NET DEBT		<u>(1,588)</u>	<u>(13,956)</u>
NET DEBT AT 1 JANUARY		<u>(91,621)</u>	<u>(77,665)</u>
NET DEBT AT 31 DECEMBER	11	<u>(93,209)</u>	<u>(91,621)</u>

Arnold Clark Finance Limited

NOTES TO THE ACCOUNTS

at 31 December 2000

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

	2000	1999
	£000	£000
(a) This is stated after charging:		
Directors' remuneration (see below)	125	108
Auditors' remuneration - audit services	14	14
Depreciation - owned assets	175	233
- assets under hire purchase contracts	30,655	28,537
Loss on disposal of fixed assets	-	-
	<u> </u>	<u> </u>
(b) Directors' remuneration:		
Aggregate Disclosures		
Emoluments	125	108
	<u> </u>	<u> </u>

No director was a member of a company pension scheme.

Arnold Clark Finance Limited

NOTES TO THE ACCOUNTS at 31 December 2000

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

	2000 £000	1999 £000
Operating profit	9,591	9,898
Depreciation	30,830	28,770
Decrease/(increase) in debtors	529	(3,917)
Increase in creditors	650	1,370
Net cash inflow from operating activities	41,600	36,121

5. STAFF COSTS

	2000 £000	1999 £000
Wages and salaries	5,090	5,323
Social security costs	455	416
	5,545	5,739

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

	No.	No.
Office and management	348	393
Sales	99	86
	447	479

6. INTEREST PAYABLE

	2000 £000	1999 £000
Payable under hire purchase contracts	8,199	7,060
Interest on Value Added Tax	-	10
	8,199	7,070

7. TAXATION CHARGE

	2000 £000	1999 £000
Based on the profit for the year:		
Deferred taxation	933	1,218
	933	1,218
Taxation (over)/under provided in previous years:		
Corporation tax	(132)	(509)
Deferred tax	89	-
	890	709

The tax charge for the year is higher than expected due to group losses surrendered for nil consideration.

Arnold Clark Finance Limited

NOTES TO THE ACCOUNTS at 31 December 2000

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 2000	127	865	180,901	89	181,982
Additions	-	50	119,048	38	119,136
Disposals	-	-	(109,809)	-	(109,809)
At 31 December 2000	127	915	190,140	127	191,309
Depreciation:					
At 1 January 2000	27	519	40,993	34	41,573
Provided during the year	3	158	30,655	14	30,830
Disposals	-	-	(26,452)	-	(26,452)
At 31 December 2000	30	677	45,196	48	45,951
Net book value:					
At 31 December 2000	97	238	144,944	79	145,358
At 1 January 2000	100	346	139,908	55	140,409

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>2000 £000</i>	<i>1999 £000</i>
Trade debtors	5,772	5,041
Other debtors	1,917	2,039
Prepayments and accrued income	1,645	1,633
Corporation tax due	92	509
Amount owed by parent company	-	1,148
	9,426	10,370

10. CREDITORS: amounts falling due within one year

	<i>2000 £000</i>	<i>1999 £000</i>
Obligations under hire purchase contracts (note 12)	63,751	64,513
Trade creditors	2,856	740
Other taxes and social security costs	2,432	971
Other creditors	4,064	6,553
Accruals and deferred income	10,502	11,129
Amounts due to parent company	110	-
Amounts due to fellow subsidiaries	14	-
	83,729	83,906

Arnold Clark Finance Limited

NOTES TO THE ACCOUNTS at 31 December 2000

11. ANALYSIS OF NET DEBT

	<i>At 1 January 2000 £000</i>	<i>Cash Flow £000</i>	<i>At 31 December 2000 £000</i>
Cash at bank and in hand	23,441	2,711	26,152
Hire purchase contracts	(115,062)	(4,299)	(119,361)
	<u>(91,621)</u>	<u>(1,588)</u>	<u>(93,209)</u>

12. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

	<i>2000 £000</i>	<i>1999 £000</i>
Amounts payable:		
Within one year (note 10)	63,751	64,513
Between two and five years	55,610	50,549
	<u>119,361</u>	<u>115,062</u>

13. DEFERRED TAXATION

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

	<i>2000 £000</i>	<i>1999 £000</i>
Accelerated capital allowances	10,648	9,626

14. SHARE CAPITAL

	<i>2000 No.</i>	<i>Authorised 1999 No.</i>	<i>Allotted, called up and fully paid 2000 £000</i>	<i>1999 £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 2000	15	27,729	27,744
Profit for the year	-	532	532
At 31 December 2000	<u>15</u>	<u>28,261</u>	<u>28,276</u>

NOTES TO THE ACCOUNTS

at 31 December 2000

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 2000 the company maintained 13,635 (1999 - 27,658) vehicles under contract with a pre-arranged purchase cost of £70,931,000 (1999 - £138,867,000) of which 12,170 (1999 - 13,011) with a pre-arranged purchase cost of £63,525,000 (1999 - £63,097,000) 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 2000 the liability amounted to £2,997,000 (1999 - £1,068,000).

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.