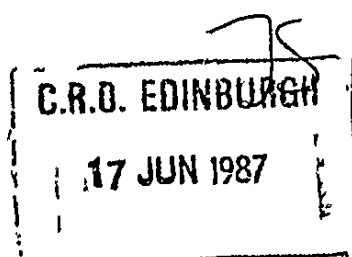


Arnold Clark Finance Limited

39597

Report and Accounts December 31, 1985



Arthur Young

A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Chartered Accountants Glasgow

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended December 31, 1985.

Results and dividends

The trading profit for the year, after taxation, amounted to £283,084.

The directors recommend that no dividend be paid which leaves the profit of £283,084 to be retained.

Review of the business

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

The company has had a satisfactory year with a significant increase in sales.

The directors are of the opinion that the level of activity will be continued in 1986.

Directors and their interests

The directors at December 31, 1985 and their interests in the ordinary share capital of the company were as follows:

	<u>At December 31, 1985</u>	<u>At December 31, 1984</u>
J.A. Clark	980	980
H.D. Wallace	-	-

H.D. Wallace retires by rotation and, being eligible, offers himself for re-election.

Auditors

During the year John Gray & Company resigned as auditors and the directors appointed Arthur Young. This appointment falls to be confirmed at the Annual General Meeting.

BY ORDER OF THE BOARD

D. Ferguson Kerr

Secretary

June 1, 1987

43 Allison Street,
Glasgow, G42 8NJ



Arthur Young

Chartered Accountants
George House, 50 George Square,
Glasgow G2 1RR

REPORT OF THE AUDITORS TO THE MEMBERS OF
ARNOLD CLARK FINANCE LIMITED

We have audited the accounts on pages 3 to 10 in accordance with approved auditing standards.

In our opinion the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of the company's affairs at December 31, 1985 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Arthur Young

June 1, 1987

ARNOLD CLARK FINANCE LIMITED

3.

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1985

	<u>Notes</u>	<u>1985</u> £	<u>1984</u> £
Turnover	2	6,019,571	4,889,763
Cost of sales		4,447,440	3,652,771
Gross profit		1,572,131	1,236,992
Administrative expenses		310,345	337,569
Operating profit		1,261,786	899,423
Interest receivable		3,232	-
Interest payable	5	1,152,779	766,165
		1,149,542	766,165
Profit on ordinary activities before taxation	3	112,244	133,258
Tax on profit on ordinary activities	6	(170,840)	4,971
Profit on ordinary activities after taxation		283,084	128,287
Retained profit brought forward		1,939,833	1,811,546
Retained profit carried forward		£2,222,917	£1,939,833


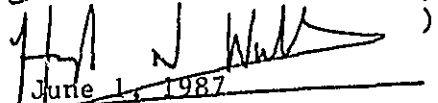
The notes on pages 6 to 10 form part of these accounts

ARNOLD CLARK FINANCE LIMITED

4.

BALANCE SHEET AT DECEMBER 31, 1985

	<u>Notes</u>	£	<u>1985</u> £	<u>1984</u> £
Fixed assets				
Tangible assets	7	11,890,298	9,316,225	-----
Current assets:				
Debtors	8	608,682	828,210	
Cash at bank and in hand		2,294,226	330,990	
		2,902,908	1,159,200	-----
Creditors: amounts falling due within one year	9	6,313,914	4,640,773	-----
Net current liabilities		3,411,006	3,481,573	-----
Total assets less current liabilities		8,479,292	5,834,652	-----
Creditors: amounts falling due after more than one year:				
H.P. creditor	10	5,557,290	3,096,819	
Provision for liabilities and charges:				
Deferred taxation	11	684,085	783,000	
		£2,237,917	£1,954,833	=====
Capital and reserves:				
Called up share capital	12	15,000	15,000	
Profit and loss account		2,222,917	1,939,833	

)
) Director

 June 1, 1987

 £2,237,917 £1,954,833
 =====

The notes on pages 6 to 10 form part of these accounts

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1985

	1985 £	1984 £
Source of funds:		
Profit on ordinary activities before taxation	112,244	133,258
Adjustment for items not involving the movement of funds:		
Depreciation	3,114,195	2,561,318
Loss/(profit) on sale of fixed assets	9,927	(5,214)
Total generated from operations	3,236,366	2,689,362
Funds from other sources:		
Proceeds of disposal of tangible fixed assets	2,996,277	2,086,733
	6,232,643	4,776,095
Application of funds:		
Purchase of tangible fixed assets	8,694,472	6,197,431
Working capital - decrease	£(2,461,829)	£(1,421,336)
Components of decrease in working capital:		
Debtors	(219,528)	(290,355)
Creditors	(4,205,537)	(1,322,047)
	(4,425,065)	(1,612,402)
Movement in net liquid funds:		
Cash at bank and in hand	1,963,236	191,066
	£(2,461,829)	£(1,421,336)

The notes on pages 6 to 10 form part of these accounts

NOTES TO THE ACCOUNTS AT DECEMBER 31, 19851. Accounting policiesAccounting convention

The accounts are prepared under the historical cost convention.

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	-	25% (reducing balance basis)
Computer equipment	-	40% (reducing balance 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.

Leasing and hire purchase commitments

Assets obtained under 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 profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income 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 of the contract hire of motor vehicles.

3. Operating profit

	<u>1985</u> £	<u>1984</u> £
(a) This is stated after charging or crediting:		
Directors' remuneration (see below)	50,463	44,192
Auditors' remuneration	6,500	6,300
Depreciation	3,114,195	2,561,318
Loss/(profit) on disposal of fixed assets	9,927	(5,214)
	=====	=====

ARNOLD CLARK FINANCE LIMITED

7.

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1985
(continued)3. Operating profit
(continued)

(b) Directors remuneration:

	£	£
Fees	25,000	25,000
Other emoluments (including pension contributions)	25,463	19,192
	<u>£ 50,463</u>	<u>£ 44,192</u>

The emoluments of the chairman, who was also the highest paid director, excluding pension contributions, were £25,000 (1984 - £25,000). Other directors' emoluments, excluding pension contributions, fell within the following ranges:

	No.	No.
£15,001 - £20,000	-	1
£20,001 - £25,000	1	-

4. Staff costs

	<u>1985</u> £	<u>1984</u> £
Wages and salaries	163,676	152,783
Social security costs	10,513	9,020
Other pension costs	1,565	-
	<u>£175,754</u>	<u>£161,803</u>

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

	No.	No.
Office and management	15	15

5. Interest payable

	<u>1985</u> £	<u>1984</u> £
Bank overdraft	40,165	37,826
Hire purchase	1,112,614	728,339
	<u>£1,152,779</u>	<u>£ 766,165</u>

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1985
(continued)6. Tax on profit on ordinary activities

	<u>1985</u> £	<u>1984</u> £
Based on the profit for the year:		
Corporation tax at 41.25% (1984 - 46.25%)	-	25,417
Deferred taxation	91,546	(19,000)
	-----	-----
	91,546	6,417
Taxation over provided in previous years:		
Corporation tax	(71,925)	(1,446)
Deferred taxation	(190,461)	-
	-----	-----
	£(170,840)	£ 4,971
	=====	=====

No corporation tax is payable on the profits for the year due to an excess of capital allowances in the year. The adjustment to the prior year corporation tax charge arises from the carry back of excess taxable losses arising in the year.

The adjustment to prior year deferred taxation arises from a change in the rate at which provision is made from 46.25% to 35%.

7. Tangible fixed assets

	<u>Freehold property</u> £	<u>Office equipment</u> £	<u>Motor vehicles</u> £	<u>Fixtures and fittings</u> £	<u>Total</u> £
Cost:					
At January 1, 1985	-	40,255	12,414,293	4,740	12,459,288
Additions	8,325	103,774	8,581,073	1,300	8,694,472
Disposals	-	-	(5,372,118)	-	(5,372,118)
	-----	-----	-----	-----	-----
At December 31, 1985	8,325	144,029	15,623,248	6,040	15,781,642
	-----	-----	-----	-----	-----
Depreciation:					
At January 1, 1985	-	-	3,141,105	1,958	3,143,063
Provided during the year	42	44,888	3,068,799	466	3,114,195
Disposals	-	-	(2,365,914)	-	(2,365,914)
	-----	-----	-----	-----	-----
At December 31, 1985	42	44,888	3,843,990	2,424	3,891,344
	-----	-----	-----	-----	-----
Net book value:					
At December 31, 1985	£ 8,283	£ 99,141	£11,779,258	£ 3,616	£11,890,298
	=====	=====	=====	=====	=====
At January 1, 1985	£ -	£ 40,255	£ 9,273,188	£ 2,782	£ 9,316,225
	=====	=====	=====	=====	=====

The motor vehicles are held for use in operating leases.

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1985
(continued)8. Debtors

	<u>1985</u> £	<u>1984</u> £
Trade debtors	163,779	121,740
Amount due by parent company	215,160	603,792
Other debtors	102,206	19,678
Prepayments and accrued income	127,537	83,000
	-----	-----
	£608,682	£828,210
	=====	=====

9. Creditors: amounts falling due within one year

	<u>1985</u> £	<u>1984</u> £
Bank overdraft (see below)	300,000	300,000
Obligations under hire purchase contracts (note 10)	4,813,429	3,362,404
Trade creditors	73,351	65,326
Current corporation tax	14,298	86,223
Other taxes and social security costs	267,518	196,359
Other creditors	152,415	292,672
Accruals and deferred income	692,903	337,789
	-----	-----
	£6,313,914	£4,640,773
	=====	=====

The bank overdraft is secured by a standard security over property owned by the company's holding company.

10. Obligations under hire purchase contracts

	<u>1985</u> £	<u>1984</u> £
Amounts payable within one year (note 9)	4,813,429	3,362,404
Over one year:		
In the second to fifth year inclusive	5,557,290	3,096,819
Over five years	-	-
	-----	-----
	£10,370,719	£6,459,223
	=====	=====

11. Deferred taxation

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

	<u>1985</u> £	<u>1984</u> £
Accelerated capital allowances	684,085	783,000
Other timing differences	-	-
Tax losses carried forward	-	-
	-----	-----
	£684,085	£783,000
	=====	=====

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1985
(continued)12. Share capital

	<u>1985</u>	<u>Authorised</u>	<u>Allotted, called up</u>	
	<u>No.</u>	<u>1984</u>	<u>and fully paid</u>	
		<u>No.</u>	<u>1985</u>	<u>1984</u>
Ordinary shares of £1 each	15,000	15,000	£15,000	£15,000
	=====	=====	=====	=====

13. Capital 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 December 31, 1985 the company maintained 1,648 vehicles under contract (with a pre-arranged purchase cost of £3,043,327) of which 656 (£1,193,350) terminate within 1986.

14. 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 December 31, 1985 the liability amounted to £232,968 (1984 - £343,615).

Under the terms of an inter company guarantee dated August 14, 1984 granted to The Royal Bank of Scotland plc the company has together with Arnold Clark Automobiles Limited, A. Clark's West End Motors Limited, Macharg Rennie & Lindsay Limited, Arnold Clark (Paisley) Limited, Arnold Clark (Bearsden) Limited and Grant Melrose and Tennent 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.

The company has guaranteed repayment of an overdraft of £300,000 granted by Mercantile Credit Company Limited to the holding company, Arnold Clark Automobiles Limited.

15. Holding company

In the opinion of the directors the company's ultimate holding company is Arnold Clark Automobiles Limited, which is incorporated in Scotland.