

Arnold Clark Finance Limited

39597

Report and Accounts

December 31, 1988

ARNOLD CLARK FINANCE LIMITED

DIRECTORS' REPORT

1.

The directors submit their report and accounts for the year ended December 31, 1988.

Results and dividends

The trading profit for the year, after taxation, amounted to £303,072.

The directors recommend that no dividend be paid which leaves the profit of £303,072 to be retained.

Review of the business

The company's principal activity during the year was the 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 1989.

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

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 the those accounts. H.D. Wallace has no interest in the ordinary share capital of the holding company.

J.A. Clark retires by rotation and, being eligible, offers himself for re-election.

Auditors

A resolution to reappoint Arthur Young as auditors will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD

A. Ferguson Kerr

Secretary

July 26, 1989

43 Allison Street,
Glasgow, G42 8NJ



Arthur Young

Chartered Accountants

George House, 50 George Square,
Glasgow G2 1RF

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, 1988 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

July 26, 1989

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1988

	<u>Notes</u>	<u>1988</u> £	<u>1987</u> £
Turnover	2	25,925,218	15,458,222
Cost of sales		18,327,084	9,588,358
Gross profit		7,598,134	5,869,864
Administrative expenses		1,915,418	1,492,769
Operating profit	3	5,682,716	4,377,095
Bank interest receivable		130,753	-
Interest payable	5	5,338,902	3,044,546
		5,208,149	3,044,546
Profit on ordinary activities before taxation		474,567	1,332,549
Taxation charge	6	171,495	470,986
Profit on ordinary activities after taxation		303,072	861,563
Retained profit brought forward		3,300,004	2,438,441
Retained profit carried forward		£3,603,076	£3,300,004

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

BALANCE SHEET AT DECEMBER 31, 1988

	<u>Notes</u>	£	<u>1988</u> £	<u>1987</u> £
Fixed assets				
Tangible assets	7	65,943,663	42,177,232	
Current assets:				
Debtors	8	3,291,978	4,109,359	
Cash at bank and in hand		4,813,828	1,449,242	
		<u>8,105,806</u>	<u>5,558,601</u>	
Creditors: amounts falling due within one year	9	<u>34,605,831</u>	<u>19,489,834</u>	
Net current liabilities		26,500,025	13,931,233	
Total assets less current liabilities		39,443,638	28,245,999	
Creditors: amounts falling due after more than one year:				
H.P. creditor	10	31,078,518	20,877,447	
Rentals in advance		<u>1,617,795</u>	<u>2,093,286</u>	
		32,696,373	22,970,733	
Provision for liabilities and charges:				
Deferred taxation	11	3,129,189	1,960,262	
		<u>£ 3,618,076</u>	<u>£ 3,315,004</u>	
Capital and reserves:				
Called up share capital	12	15,000	15,000	
Profit and loss account		3,603,076	3,300,004	


) Director

July 26, 1989

£ 3,618,076

£ 3,315,004

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, 1988

	<u>1988</u> £	<u>1987</u> £
Source of funds:		
Profit on ordinary activities before taxation	474,567	1,332,549
Adjustment for items not involving the movement of funds:		-
Depreciation	12,757,263	6,887,151
(Profit) on sale of fixed assets	(284,944)	(186,407)
	-----	-----
Total generated from operations	12,946,886	8,033,293
Funds from other sources:		
Proceeds of disposal of tangible fixed assets	15,196,298	9,475,144
Net movement on hire purchase obligations	19,658,293	17,933,854
Group relief received	997,433	458,434
	-----	-----
	35,852,024	35,900,725
Application of funds:		
Purchase of tangible fixed assets	51,435,049	39,073,842
Tax paid	-	-
	-----	-----
Working capital - decrease	£(2,636,139)	£(3,173,117)
	=====	=====
Components of decrease in working capital:		
Debtors	(817,381)	2,270,045
Creditors	(5,183,344)	(4,992,931)
	-----	-----
	(6,000,725)	(2,722,886)
Movement in net liquid funds:		
Cash at bank and in hand	3,364,586	(450,231)
	-----	-----
	£(2,636,139)	£(3,173,117)
	=====	=====

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

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1988

1. Accounting policies

Accounting 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	-	20% (reducing balance basis)
Computer equipment	-	40% (reducing balance basis)
Freehold property	-	2% (straight line)

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 agreement 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.

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1988
(continued)

3. Operating profit

	<u>1988</u> £	<u>1987</u> £
(a) This is stated after charging or (crediting):		
Directors' remuneration (see below)	44,961	39,792
Auditors' remuneration	4,800	6,000
Depreciation - owned assets	34,623	42,145
- assets under hire purchase contracts	12,722,640	6,845,006
(Profit)/loss on disposal of fixed assets	(284,944)	(186,407)
	=====	=====

(b) Directors remuneration:

	£	£
Fees	-	-
Other emoluments (including pension contributions)	44,961	39,792
	-----	-----
	£44,961	£39,792
	=====	=====

The emoluments of the chairman, excluding pension contributions, were £Nil (1987 - £Nil). The emoluments of the highest paid director were £42,746 (1987 - £38,250).

4. Staff costs

	<u>1988</u> £	<u>1987</u> £
Wages and salaries	972,194	774,192
Social security costs	93,505	68,011
Other pension costs	14,897	7,795
	-----	-----
	£1,080,596	£ 849,998
	=====	=====

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

	No.	No.
Office and management	106	105
Sales	40	10
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	146	115
	===	===

ARNOLD CLARK FINANCE LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1988 (continued)

8.

5. Interest payable

	1988 £	1987 £
Bank overdraft	-	360,225
Hire purchase	5,338,902	2,684,321
	<u>£5,338,902</u>	<u>£3,044,546</u>

6. Taxation charge

	1988 £	1987 £
Based on the profit for the year:		
Group relief surrendered	(1,002,914)	(435,984)
Deferred taxation	1,174,271	903,702
Taxation under/(over) provided in previous years:		
Group relief surrendered	5,482	(22,450)
Deferred taxation	(5,344)	25,718
	<u>£ 171,495</u>	<u>£ 470,986</u>

7. Tangible fixed assets

	Freehold property £	Computer equipment £	Motor vehicles £	Fixtures and fittings £	Total £
Cost:					
At January 1, 1988	8,325	204,359	50,631,601	6,040	50,850,325
Additions	56,314	16,250	51,362,485	-	51,435,049
Disposals	-	-	(19,403,304)	-	(19,403,304)
At December 31, 1988	<u>64,639</u>	<u>220,609</u>	<u>82,590,782</u>	<u>6,040</u>	<u>82,882,070</u>
Depreciation:					
At January 1, 1988	374	130,265	8,539,026	3,428	8,673,093
Provided during the year	260	33,971	12,722,640	392	12,757,263
Disposals	-	-	(4,491,949)	-	(4,491,949)
At December 31, 1988	<u>634</u>	<u>164,236</u>	<u>16,769,717</u>	<u>3,820</u>	<u>16,938,407</u>
Net book value:					
At December 31, 1988	<u>£64,005</u>	<u>£ 56,373</u>	<u>£65,821,065</u>	<u>£2,220</u>	<u>£65,943,663</u>
At January 1, 1988	<u>£ 7,951</u>	<u>£ 74,094</u>	<u>£42,092,575</u>	<u>£2,612</u>	<u>£42,177,232</u>

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1988
(continued)

8. Debtors

	<u>1988</u> £	<u>1987</u> £
Trade debtors	524,274	576,517
Amount due by parent company	1,532,018	1,922,696
Amounts due by fellow subsidiaries	215,203	603,948
Other debtors	29,541	177,083
Prepayments and accrued income	990,942	829,115
	-----	-----
	£3,291,978	£4,109,359
	=====	=====

9. Creditors: amounts falling due within one year

	<u>1988</u> £	<u>1987</u> £
Bank overdraft (see below)	-	300,000
Obligations under hire purchase contracts (note 10)	22,464,152	13,006,990
Trade creditors	246,236	120,289
Other taxes and social security costs	2,497,596	1,991,772
Other creditors	832,088	366,041
Accruals and deferred income	8,565,759	3,702,573
Amounts due to fellow subsidiaries	-	2,170
	-----	-----
	£34,605,831	£19,489,835
	=====	=====

The bank overdraft, which was repaid during 1988, was secured by a standard security over property owned by the company's holding company.

10. Obligations under hire purchase contracts

	<u>1988</u> £	<u>1987</u> £
Amounts payable within one year (note 9)	22,464,152	13,006,990
Over one year:		
In the second to fifth year inclusive	31,078,578	20,877,447
	-----	-----
	£53,542,730	£33,884,437
	=====	=====

11. Deferred taxation

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

	<u>1988</u>	<u>1987</u>
Accelerated capital allowances	£3,129,189	£1,960,262
	=====	=====

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1988
(continued)

12. Share capital

	<u>1988</u>	<u>Authorised</u>	<u>Allotted, called up</u>	
	<u>No.</u>	<u>1987</u>	<u>and fully paid</u>	
		<u>No.</u>	<u>1988</u>	<u>1987</u>
Ordinary shares of £1 each	15,000	15,000	£15,000	£15,000
	=====	=====	=====	=====

13. Contingent liabilities

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, 1988 the company maintained 6,074 (1987 - 4,339) vehicles under contract with a pre-arranged purchase cost of £16,906,070 (1987 - £10,765,840) of which 1,799 (1987 - 446) with a pre-arranged purchase cost of £4,454,771 (1987 - £895,525) terminate within one year.

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, 1988 the liability amounted to £1,579,227 (1987 - £1,179,620).

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.

14. Capital commitments

	<u>1988</u>	<u>1987</u>
Contracted	£ -	£ -
	=====	=====
Authorised but not contracted	£ -	£ -
	=====	=====

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.