ARNOLD CLARK FINANCE LIMITED
ANNUAL REPORT 2015

SC39597

Directors, principal officers and advisers

Arnold Clark Finance Limited

Directors

Sir Arnold Clark DUniv FIMI	Chairman
D M Cooper BAcc (Hons) FCCA	Managing Director
E Hawthorne BA CA	Director
K J McLean BAcc (Hons) CA	Director

Principal Officers

S K Thorpe BA (Hons) FCA	Company Secretary
A J Clark	General Manager Hire Drive
A J Gillon	Public Sector Sales Director
C Ewart	Corporate Sales Director
A Howieson BA (Hons) CA	Financial Controller

Registered Office

454 Hillington Road,
Glasgow G52 4FH

Principal Bankers

The Royal Bank of Scotland plc
1304 Duke Street, Glasgow G31 5PZ

Auditors

Ernst & Young LLP
G1, 5 George Square, Glasgow G2 1DY

Tax Advisers

Ernst & Young LLP
G1, 5 George Square, Glasgow G2 1DY

VAT Advisers

Deloitte LLP
1 City Square, Leeds LS1 2AL

Group managing director's statement

Arnold Clark Finance Limited

It was with great sadness that we learned of the loss of our dear friend and colleague, Hugh Wallace, in May. Hugh was an inspiration to all who knew him and his generosity in giving his time, knowledge and friendship had no bounds. Since incepting Arnold Clark Finance Limited, Hugh was the major driving force behind the growth of our contract hire fleet and daily rental business. His wit, generosity of spirit and vast experience are sorely missed by all the directors, staff and customers, many of whom were personal friends of Hugh. In November, at the Fleet Business Awards, Hugh was honoured by the industry by being inducted into the Fleet Hall of Fame, a very fitting tribute to a man who was held in such high regard throughout the industry.

After a period of reflection, David Cooper was promoted to Managing Director of Arnold Clark Finance Limited in August. As Financial Controller and then, from 2004, Finance Director, David has, over the past seventeen years, worked extremely closely with Hugh and the Board and I am confident that David is the right person to lead Arnold Clark Finance Limited in the future.

Review

I am delighted to report on another successful year for the Company. During 2015, our turnover increased by 10.7% to achieve a new record figure of £559m (2014 - £505m). Residual values on used cars continued to be strong during 2015 and this, accompanied by low interest rates, contributed to profits before tax of £15.5m. These figures have led to us being ranked as the eighth largest leasing company in the 2015 Fleet News Top 50.

Our contract hire division performed well during the year, with turnover growing by 3.7% to £139m. The public sector leasing arena has been challenging due to changes in some fleet budgets and eligibility of staff entering these schemes but growth has continued in the corporate sector. The move to electronic invoicing has improved our customer interaction by giving our customers more efficient ways of managing their account. DVLA has now abolished the counterpart driving licence and has moved to a new system whereby the Vehicle Registration Document is held by DVLA until requested by the fleet operator. These changes have allowed us to speed up delivery times to both our contract hire and daily rental customers.

In 2014, the UK benefited from a number of high-profile sporting events, which resulted in high levels of short-term rentals. These events were not repeated in 2015 so it is testament to our staff that we managed to increased turnover in our daily rental division by 2.1% to £43m.

Growth

In 2015, our total owned fleet increased by 375 vehicles to 46,233 vehicles and our managed customer vehicles also increased by 8,849 to 75,366.

In March, our Activa Contracts business unit relocated to our own, larger, facility in Milton Keynes. These new premises are key to the expansion of our fleet operation across England and Wales and provide a strong foundation from which to increase the 7,000 vehicles currently under Activa's management.

During the year, we continued our expansion in England by opening new daily rental sites in Burton-upon-Trent and Chesterfield. We also conducted a significant branch rebrand in line with the Arnold Clark Group and made a significant investment in IT development from which our customers are already benefiting. Our daily rental vehicle branding is something I am particularly pleased with and its striking design is very noticeable on the roads throughout the UK.

Staff

Our long-term success can be attributed to the enthusiasm and professionalism of all of our staff and I wish to thank them for their contribution. We are fortunate to have a very low turnover of staff. I believe this is a major benefit to the business and we pride ourselves on developing long-lasting, close-working relationships with each of our customers and their businesses.

For the fifth year running we won an Industry Achievement Award at the BVRLA Awards due to the results our staff are achieving in their Rental Operator qualifications. It is pleasing to see our staff being recognised by the industry as outstanding professionals.

Group managing director's statement

Arnold Clark Finance Limited

Outlook

2016 is a new chapter for Arnold Clark Finance as we move to a bespoke head office based in Hillington, Glasgow in March. We leave St George's Road with many happy memories over the last 32 years. This move is a significant investment by the Group and will allow for expansion within our part of the business. It will also allow for further development of our systems and synergies with other departments within the Arnold Clark Group.

Over the year ahead we have a number of new products that are being introduced to our customers that will make dealing with our business more efficient. We will enhance our customer experience by introducing them to AutoCentre (our fleet management system), Mileage Capture and Whole Life Costs to name but a few of our exciting products.

Our daily rental operation will continue to expand during 2016, with a number of new territories already identified.

2015 saw in excess of 2.6 million vehicles registered in Britain and 2016 is predicted to be ahead of last year. With confidence high amongst British consumers, it is very likely that 2016 will be another year of growth for most vehicle manufacturers. We are, therefore, confident that 2016 will be another good year for the leasing industry as a whole.

As part of one of the largest privately owned vehicle retailers in Europe it allows us to continue to provide an unparalleled level of service to all our customers. We offer genuine value for money to our customers and meet all of their fleet requirements within the one business. I believe that our continued focus on building and maintaining a high quality customer base will lead to further company growth in 2016 and beyond.

E Hawthorne
Group Managing Director
22 APRIL 2016

Strategic report

Arnold Clark Finance Limited

The Directors present their strategic report for the year ended 31 December 2015.

Review of the business

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

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

	2015	2014	Change
Revenue	£559.2m	£505.2m	10.7%
Contract hire fleet	37,781	37,836	(0.1)%
Daily rental fleet	8,452	8,022	5.4%
Managed customer vehicles	75,366	66,517	13.3%

The increases in turnover, contract hire fleet and daily rental fleet during the year are all entirely attributable to the continued organic growth of the Company. The forecasts for 2016 are for this trend to continue.

A further review of the business is included in the Group Managing Director's Statement on pages 2 and 3.

Principal risks and uncertainties

The main risks and uncertainties associated with the Company's operations are set out below.

Financial instrument risk: 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.

Interest rate risk: 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 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.

Residual value risk: The residual value risk is defined by the Company as the exposure to potential loss at contract end due to the resale values of assets declining below the estimates made at lease inception. The Company monitors this exposure on a continuous basis and adjusts its residual values for both new and existing leases accordingly.

On behalf of the Board

David M Cooper

D M Cooper
Managing Director

22 APRIL 2016

Directors' report

Arnold Clark Finance Limited

The Directors present their report for the year ended 31 December 2015.

Results and dividends

The profit on ordinary activities before taxation amounted to £15,535,000 (2014 - £16,139,000). The profit for the year after taxation amounted to £12,599,000 (2014 - £12,040,000). The Directors do not recommend a dividend, leaving £12,599,000 to be transferred to reserves (2014 - £12,040,000).

A further review of the business and its principal risks is provided in the Group Managing Director's Statement on pages 2 and 3 and in the Strategic Report on page 4.

Employees

Regular meetings are held between management and employees to allow a free flow of information and exchange of ideas and information relevant to employees is provided through an employee portal, which is available to all members of staff.

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

The directors who served during the year were as follows:

Sir Arnold Clark
H D Wallace
D M Cooper
E Hawthorne
K J McLean

H D Wallace ceased to be a director on 19 May 2015.

The Company has made qualifying third-party indemnity provisions for the benefit of all the directors, such indemnity provisions were in force during the year and remain in force at the date of this report.

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 1. 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

D M Cooper
Managing Director

22 APRIL 2016

Statement of directors' responsibilities

Arnold Clark Finance Limited

The Directors are responsible for preparing the Strategic Report, 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 including FRS 101 "Reduced Disclosure Framework"). 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 United Kingdom 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 company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and 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 2015 which comprise the Statement of Profit or Loss and other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes 1 to 20. 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), including FRS 101 "Reduced Disclosure Framework".

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 6, 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 the 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report

to the members of Arnold Clark Finance Limited

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Ernst & Young LLP

Mark Harvey
Senior Statutory Auditor
for and on behalf of Ernst & Young LLP,
Statutory Auditor, Glasgow

22 April 2016

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2015

Arnold Clark Finance Limited

	Notes	2015 £000	2014 £000
Revenue	5	559,229	505,187
Cost of sales		(502,146)	(449,394)
Gross profit		57,083	55,793
Administrative expenses		(32,108)	(30,067)
Operating profit	6	24,975	25,726
Finance costs	9	(9,440)	(9,829)
Finance income - other interest receivable		-	242
Profit before tax from continuing operations		15,535	16,139
Income tax expense	10	(2,936)	(4,099)
Profit for the year		12,599	12,040
Other comprehensive income		-	-
Total comprehensive income for the year		12,599	12,040

All operations are classed as continuing operations during the year.

Statement of financial position

at 31 December 2015

Arnold Clark Finance Limited

	Notes	2015 £000	2014 £000
Assets			
Non-current assets			
Property, plant and equipment	11	496,264	468,468
Current assets			
Inventories	12	24,993	31,901
Trade and other receivables	13	13,631	16,111
Cash and cash equivalents		48,454	51,115
		87,078	99,127
Total assets		583,342	567,595
Equity and liabilities			
Issued share capital	14	15	15
Profit and loss account		72,252	59,653
Total equity		72,267	59,668
Non-current liabilities			
Interest bearing loans and borrowings	15	186,220	170,460
Other liabilities	16	5,563	5,438
Deferred tax liabilities	10	13,739	16,861
		205,522	192,759
Current liabilities			
Interest-bearing loans and borrowings	15	250,420	251,092
Trade and other payables	16	49,032	56,547
Income tax payable		6,101	7,529
		305,553	315,168
Total liabilities		511,075	507,927
Total equity and liabilities		583,342	567,595

Approved by the Board on 22 APRIL 2016

E Hawthorne
Director

D M Cooper
Director

Statement of changes in equity

for the year ended 31 December 2015

Arnold Clark Finance Limited

	Share capital £000	Profit and loss account £000	Total £000
As at 1 January 2014	15	47,613	47,628
Total comprehensive income	-	12,040	12,040
As at 31 December 2014	15	59,653	59,668
As at 1 January 2015	15	59,653	59,668
Total comprehensive income	-	12,599	12,599
As at 31 December 2015	15	72,252	72,267

Notes to the financial statements

for the year ended 31 December 2015

Arnold Clark Finance Limited

1. Corporate information

Arnold Clark Finance Limited is a privately owned company incorporated in Scotland under the Companies Act 2006. The address of the registered office is 454 Hillington Road, Glasgow, G52 4FH.

Information on the Company's operations and its principal activities are set out in the Strategic Report.

2. Statement of compliance with FRS 101

The results of Arnold Clark Finance Limited ("the Company") are included in the consolidated financial statements of Arnold Clark Automobiles Limited. Copies of the financial statements of Arnold Clark Automobiles Limited are available from The Registrar of Companies, Companies House, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

The financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) as issued September 2015. The Company has early adopted this revision to FRS 101 as permitted under the standard. The financial statements are prepared under the historical cost convention. The Company has elected to prepare the Statement of Financial Position in an adapted format, as permitted under the standard, so that it is prepared in a consistent format to the Consolidated Statement of Financial Position prepared by Arnold Clark Automobiles Limited.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2015. The financial statements are prepared in Sterling and are rounded to the nearest thousand pounds (£000).

3. Summary of significant accounting policies

3.1 Basis of preparation

The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented. Transition tables showing all material adjustments are disclosed in note 20.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a. The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS3 Business Combinations;

b. the requirements of IFRS 7 Financial Instruments: Disclosures;

c. the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

d. the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:

   i) paragraph 79(a)(iv) of IAS 1;

   ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;

   iii) paragraph 118(e) of IAS 38 Intangible Assets;

   iv) paragraphs 76 and 79(d) of IAS 40 Investment Property;

e. the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS1 Presentation of Financial Statements;

f. the requirements of IAS 7 Statement of Cash Flows

g. the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

h. the requirements of paragraph 17 of IAS24 Related Party Disclosures;

i. the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is a wholly owned by such a member; and

j. the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of assets.

In each instance equivalent disclosures are included in the consolidated financial statements of the Group in which the Company is consolidated.

Notes to the financial statements

for the year ended 31 December 2015

Arnold Clark Finance Limited

3.2 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 Strategic Report.

The Company funds vehicles purchased for its contract 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 and Group's forecast 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 and the Group have 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.

3.3 Significant accounting policies

Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. Historic cost is the invoice price of the item less any discounts or rebates receivable plus any separately charged delivery or installation costs.

Depreciation is provided on all property plant and equipment, at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Land and buildings	: Freehold	- 1% - 16.7% (straight line)
	: Leasehold	- as freehold or over the lease term where shorter (straight line)
Plant and equipment	: General	- 15% (reducing balance)
	: Computer equipment	- 40% (reducing balance)
Motor vehicles	: Own use	- 20% or 25% (reducing balance)
	: Contract hire vehicles	- over the term of the hire contract (straight line)

3.3 Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessee

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Assets held under finance leases and hire purchase agreements are capitalised at the commencement of the lease at the inception date fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial assets Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. Interest is not recognised on short-term receivables where the interest would be immaterial. This category generally applies to trade and other receivables.

3.3 Summary of significant accounting policies (continued)

Impairment of financial assets

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or other payables.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Inventories

Inventories 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.

3.3 Summary of significant accounting policies (continued)

Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of profit or loss. The effect of the time value of money is not material and therefore the provisions are not discounted.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Sales of goods are recognised when the goods are delivered.

Rentals receivable on vehicles held for use in operating leases are recognised on a straight line basis over the term of the lease.

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.

3.4 Transition to FRS 101

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS 101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the company has applied the requirements of paragraphs 6-33 of IFRS 1 - First-time adoption of International Financial Reporting Standards.

4. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree that would warrant their description as significant.

Notes to the financial statements

for the year ended 31 December 2015

Arnold Clark Finance Limited

5. Revenue

Revenue recognised in the statement of profit or loss and other comprehensive income is analysed as follows:

	2015 £000	2014 £000
Sale of motor vehicles	377,738	328,900
Hiring of motor vehicles	181,491	176,287
	559,229	505,187

All income arises in the United Kingdom.

6. Profit before tax from continuing operations

The following items have been included in arriving at profit before tax from continuing operations:

	2015 £000	2014 £000
Depreciation of property, plant and equipment	120,500	118,460

7. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2015 £000	2014 £000
Fees payable to the company's auditor for the audit of the Company's annual accounts	18	17

8. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2015 £000	2014 £000
Wages and salaries	14,176	13,879
Social security costs	1,199	1,219
Pension costs	316	317
Total employee benefits expense	15,691	15,415

8. Employee benefits expense (continued)

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

	2015 No.	2014 No.
Office and management	486	455
Sales	172	167
	658	622

The directors' emoluments were as follows:

	2015 £000	2014 £000
Emoluments	183	196

9. Finance costs

	2015 £000	2014 £000
Finance charges payable under hire purchase agreements	9,440	9,829

10. Income tax

The major components of income tax expense are:

	2015 £000	2014 £000
Current income tax:		
UK corporation tax charge	6,101	7,529
Adjustments in respect of previous years	(43)	2,589
Deferred tax:		
Relating to origination and reversal of temporary differences	(2,887)	(6,304)
Impact of change in tax laws and rates	(235)	285
Income tax expense reported in the statement of profit or loss	2,936	4,099

There was no tax charged to the statement of other comprehensive income in either year.

10. Income tax (continued)

The reconciliation of the tax expense and the accounting profit multiplied by the standard rate of corporation tax for each year is as follows:

	2015 £000	2014 £000
Accounting profit before income tax	15,535	16,139
At UK corporation tax rate of 20.25% (2014 - 21.5%)	3,146	3,470
Tax effect of non-deductible or non-taxable items income	29	(18)
Effect of changes in tax rates	(235)	285
Adjustments in respect of current tax of previous years	(43)	2,589
Adjustments in respect of deferred tax of previous years	39	(2,227)
At the effective income tax rate of 18.9% (2014 - 25.4%)	2,936	4,099

UK corporation tax rates were reduced to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. The UK Government has announced that it intends to further reduce the rate of UK corporation tax to 17% by 1 April 2020. The reductions to 19%, effective from 1 April 2017, and 18%, effective from 1 April 2020, were included in the Finance Act (No. 2) 2015, which was substantively enacted on 26 October 2015. The further reduction to 17% announced in the most recent budget has not yet been enacted and would not have a material effect on the Company's deferred tax charge or deferred tax liability.

The deferred tax included in the statement of financial position is as follows:

	2015 £000	2014 £000
Accelerated capital allowances	13,747	16,870
Other temporary difference	(8)	(9)
Net deferred tax liability	13,739	16,861
Reflected in the statement of financial position as follows:		
Deferred tax liabilities	13,739	16,861

Deferred tax assets have been recognised in respect of other temporary differences giving rise to deferred tax assets because it is probable that there will be future taxable profits available.

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

11. Property, plant and equipment

Cost:	Land and buildings £000	Computer equipment £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
At 1 January 2015	3,887	3,181	658,664	1,277	667,009
Additions	95	128	491,354	474	492,051
Disposals	-	(7)	(458,593)	(36)	(458,636)
At 31 December 2015	3,982	3,302	691,425	1,715	700,424
Depreciation:					
At 1 January 2015	64	3,066	194,510	901	198,541
Provided during the year	80	112	120,080	228	120,500
Disposals	-	(7)	(114,856)	(18)	(114,881)
At 31 December 2015	144	3,171	199,734	1,111	204,160
Net book value:					
At 31 December 2015	3,838	131	491,691	604	496,264
At 31 December 2014	3,823	115	464,154	376	468,468

Hire purchase agreements

All of the Company's motor vehicles are purchased by way of hire purchase agreements and held for use in operating leases and are provided as security in respect of the sums outstanding on the associated hire purchase agreements.

12. Inventories

	2015 £000	2014 £000
Motor vehicles	24,993	31,901

All of the Company's inventories are purchased by way of hire purchase agreements and are provided as security in respect of the sums outstanding on the associated hire purchase agreements.

13. Trade and other receivables

	2015 £000	2014 £000
Trade receivables	11,070	11,094
Other receivables	663	720
VAT recoverable	37	2,221
Prepayments and accrued income	1,861	2,076
	13,631	16,111

14. Issued share capital

The share capital at 31 December 2015 and 31 December 2014 is analysed at follows:

	Authorised		Allotted, called up and fully paid	
	2015 No.	2014 No.	2015 £000	2014 £000
Ordinary shares of £1 each	15,000	15,000	15	15

No shares were authorised or issued in either period.

15. Financial liabilities

Interest-bearing loans and borrowings

The Company has a number of hire purchase contracts for vehicles. The Company's obligations under hire purchase contracts are secured on the vehicles funded. Future minimum payments under hire purchase agreements, together with the present value of the net minimum lease payments, are as follows:

	Minimum payments		Present value of payments	
	2015 £000	2014 £000	2015 £000	2014 £000
Amounts payable				
Within one year	257,623	258,143	250,420	251,092
In two to five years	189,906	174,067	186,220	170,460
	447,529	432,210	436,640	421,552
Less: future finance charges	(10,889)	(10,658)		
Present value of hire purchase obligations	436,640	421,552		

	2015 £000	2014 £000
Current interest-bearing borrowings:	250,420	251,092
Non-current interest-bearing borrowings	186,220	170,460
	436,640	421,552

The payments for these obligations will be met from the income received from the associated operating lease rentals (see note 17) and from the disposal of the associated assets.

16. Trade and other payables

	2015 £000	2014 £000
Trade payables	1,140	5,424
Other creditors	16,183	14,710
Accruals and deferred income	32,105	34,774
Amounts due to group undertakings	5,167	7,077
	54,595	61,985
Current liabilities	49,032	56,547
Non-current liabilities	5,563	5,438
	54,595	61,985

The rentals in advance included in accruals and deferred income will be released over a period of up to 5 years depending on the term of the associated rental agreement.

17. Commitments

Operating lease commitments - Company as a lessee

The Company has entered into operating leases in respect of land and buildings, with lease terms from 1 to 11 years. Under some of the leases the Company and/or the landlord has the option to break the lease at specified points in time; in these cases the future minimum payments are calculated up until the specified point in time.

Future minimum rentals payable for land and buildings under non-cancellable operating leases as at 31 December are as follows:

	2015 £000	2014 £000
Within one year	252	257
After one year but not more than five years	568	658
More than five years	264	268
	1,084	1,183

Operating lease commitments - Company as a lessor

The Company has entered into operating leases as lessor in respect of contract hire vehicles for periods of between 12 and 60 months.

Future minimum rentals payable under non-cancellable operating leases at 31 December are as follows:

	Contract hire vehicles	
	2015 £000	2014 £000
Within one year	103,688	102,856
After one year but not more than five years	101,727	100,025
	205,415	202,881

17. Commitments (continued)

Capital commitments

At the year end, the Company had capital commitments as follows:

	2015 £000	2014 £000
Contracted but not provided for	47	-
Authorised but not contracted	65	-
	112	-

18. Contingent 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 2015, the Value Added Tax payable by other members of the group registration amounted to £851,000 (2014 - £6,493,000).

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 2015, the other companies included in the guarantee had net funds of £70,653,000 (2014 - £43,053,000) due from The Royal Bank of Scotland plc.

19. 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.

Notes to the financial statements

for the year ended 31 December 2015

Arnold Clark Finance Limited

20. First-time adoption of FRS 101

Reconciliation of profit or loss and total comprehensive income for the year ended 31 December 2014

	Notes	UK GAAP £000	Remeasurements £000	IFRS £000
Revenue	A	176,287	328,900	505,187
Cost of sales	A	(120,494)	(328,900)	(449,394)
Gross profit		55,793	-	55,793
Administrative and distribution expenses		(30,067)	-	(30,067)
Operating profit		25,726	-	25,726
Finance costs		(9,829)	-	(9,829)
Finance income		242	-	242
Profit before tax from continuing operations		16,139	-	16,139
Income tax expense		(4,099)	-	(4,099)
Profit for the year from continuing operations		12,040	-	12,040

Notes to the reconciliation of profit or loss and total comprehensive income for the year ended 31 December 2014

A Disposal of contract hire vehicles

Under UK GAAP the disposal of fixed assets held for use in operating leases was shown as a gain or loss in cost of sales. Under IAS 18 these are considered to be revenue due to the nature of the Company's trade and accordingly the appropriate adjustments have been made to Revenues and to Cost of Sales. The effect has been to increase both figures by £328,900,000 for the year ended 31 December 2014. There is no effect on the Statement of Financial Position from this adjustment.

There were no adjustments affecting the Statement of Financial Position at 1 January 2014 or 31 December 2014 on adoption of FRS 101.