

**ARNOLD CLARK FINANCE LIMITED
ANNUAL REPORT 2016**

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COMPANIES HOUSE

Directors, principal officers and advisers

Arnold Clark Finance Limited

Directors

D M Cooper BAcc (Hons) FCCA

E Hawthorne BA CA

K J McLean BAcc (Hons) CA

Managing Director

Director

Director

Principal Officers

S K Thorpe BA (Hons) FCA

A J Clark

A J Gillon

C Ewart

A Howieson BA (Hons) CA

Company Secretary

General Manager Hire Drive

Public Sector Sales Director

Corporate Sales Director

Financial Controller

Registered Office

454 Hillington Road,
Glasgow G52 4FH

Tax Advisers

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

Principal Bankers

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

VAT Advisers

Deloitte LLP
1 City Square, Leeds LS1 2AL

Auditors

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

Managing Director's Statement

Arnold Clark Finance Limited

Review

I am delighted to report on another successful year for the Company. It has been a very important period of time for the business with the integration of our Head Office and Arnold Clark Group Head Office into a new purpose built facility at Hillington, Glasgow. This investment has given us a platform in which to grow and allow our customers to benefit from greater synergies within our group.

As reported in my statement last year, the public sector leasing arena has been challenging due to changes in some fleet budgets and eligibility of staff entering car schemes. A reduction in public sector activity resulted in our turnover decreasing by 2.1% to £547.3m in 2016, but it has been encouraging to see our corporate leasing fleet continue to grow in a very competitive market. This enabled us to retain our position as the eighth largest leasing company in the 2016 Fleet News Top 50.

During 2016 our daily rental division's fleet size increased to record levels assisted by demand generated from our updated website and targeted marketing campaigns. During 2016 we invested significantly in refreshing and increasing the number of commercial vehicles to cope with demand; this resulted in our daily rental turnover increasing by 8.4% to £46.3m.

Overall our net profit decreased to £10.1m for the year as a result of the downturn in public sector activity and an increase in overheads with investment in additional premises, staff and rebranding.

Growth

The leasing sector is a very competitive one, but we continue to engage with our customers to create a solution to satisfy their individual requirements; this tailored approach will result in more efficient and effective fleets.

During the year, we continued our expansion in England by opening our most southerly rental location in Lingfield, Surrey which allows us to offer rental in the area south of the M25. This expansion has continued in February 2017 with the opening of a new rental outlet in York.

Staff

Our long-term success can be attributed to the enthusiasm and professionalism of all of our staff. They have been through a lot of change with the move to the new Head Office so I want to thank them for their contribution and patience during what has been a period of major change. Their loyalty is exemplary and this has resulted in us having a very low turnover of staff. I believe this is a major benefit to the business as we pride ourselves on developing long-lasting, close working relationships with each of our customers which allows us to understand their businesses better.

For the eleventh year running we won the BVRLA City & Guilds Presidents Award 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, and well done to Christopher Hume from our Edinburgh Seafield rental branch who won the award this year.

Managing Director's Statement

Arnold Clark Finance Limited

Outlook

We have continued to invest in value added benefits for our customers during 2016 which will enable them to run their fleet more efficiently. This involved rolling out Autocentre to more customers providing access to fleet information 24 hours a day. In early 2017, we launched Journeys – a mileage capture app which allows drivers to record business miles, which can help reduce transport costs and lower the environmental impact.

Personal Contract Hire has continued to be a popular product within the industry and there has been significant growth with a number of customers seeing this as an all-inclusive, no hassle package. I believe that this trend will continue during 2017.

We go into 2017 with a number of critical changes happening which could reshape the industry as we know it. The first of these is the change in Vehicle Excise Duty which will add to the overheads of businesses and private customers alike. Also, the changes being introduced in the new Finance Bill will have an impact on the industry as a whole due to changes being made to salary sacrifice car arrangements and cash allowances. The Chancellor also announced that the Government is exploring a new tax treatment for diesel cars, which could lead to a return to petrol or electric based engines for business fleets. We work hard with our customers to help them meet fleet environmental objectives, and will continue to look at new ways that we can achieve this going forward.

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 one business. I believe that our continued focus on building and maintaining a high quality customer base will lead to company growth in 2017 and beyond.



D M Cooper
Managing Director

21 APRIL 2017

Strategic report

Arnold Clark Finance Limited

The Directors present their strategic report for the year ended 31 December 2016.

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:

	2016	2015	Change
Revenue	£547.3m	£559.2m	(2.1)%
Contract hire fleet	34,347	37,781	(9.1)%
Daily rental fleet	10,181	8,452	20.5%
Managed customer vehicles	97,251	75,366	29.0%

The decrease in turnover and contract hire fleet is wholly down to market conditions. The increase in the daily rental fleet during the year is entirely attributable to the continued organic growth of the Company. The forecast for 2017 is that our overall fleet size should remain static and as a result turnover to be at a similar level to 2016.

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



D M Cooper
Managing Director

21 APRIL 2017

Directors' report

Arnold Clark Finance Limited

The Directors present their report for the year ended 31 December 2016.

Results and dividends

The profit on ordinary activities before taxation amounted to £12,534,000 (2015 – £15,535,000). The profit for the year after taxation amounted to £10,149,000 (2015 – £12,599,000). The Directors do not recommend a dividend, leaving £10,149,000 to be transferred to reserves (2015 – £12,599,000).

A further review of the business and its principal risks is provided in the 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
D M Cooper
E Hawthorne
K J McLean

Sir Arnold Clark ceased to be a Director of the company on 10 April 2017.

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

21 APRIL 2017

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 2016 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 19. 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 2016 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.

Matters on which we are required to report by exception

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.

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.



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

21 April 2017

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2016

Arnold Clark Finance Limited

	Notes	2016 £000	2015 £000
Revenue	5	547,330	559,229
Cost of sales		(493,174)	(502,146)
Gross profit		54,156	57,083
Administrative expenses		(33,025)	(32,108)
Operating profit	6	21,131	24,975
Finance costs	9	(8,597)	(9,440)
Profit before tax from continuing operations		12,534	15,535
Income tax expense	10	(2,385)	(2,936)
Profit for the year		10,149	12,599
Other comprehensive income		-	-
Total comprehensive income for the year		10,149	12,599

All operations are classed as continuing operations during the year.

Statement of financial position

at 31 December 2016

Arnold Clark Finance Limited

	Notes	2016 £000	2015 £000
Assets			
Non-current assets			
Property, plant and equipment	11	497,778	496,264
Current assets			
Inventories	12	24,865	24,993
Trade and other receivables	13	13,616	13,631
Cash and cash equivalents		45,240	48,454
		<u>83,721</u>	<u>87,078</u>
Total assets		<u>581,499</u>	<u>583,342</u>
Equity and liabilities			
Issued share capital	14	15	15
Profit and loss account		82,401	72,252
Total equity		<u>82,416</u>	<u>72,267</u>
Non-current liabilities			
Interest-bearing loans and borrowings	15	178,668	186,220
Other liabilities	16	5,331	5,563
Deferred tax liabilities	10	10,590	13,739
		<u>194,589</u>	<u>205,522</u>
Current liabilities			
Interest-bearing loans and borrowings	15	245,296	250,420
Trade and other payables	16	53,731	49,032
Income tax payable		5,467	6,101
		<u>304,494</u>	<u>305,553</u>
Total liabilities		<u>499,083</u>	<u>511,075</u>
Total equity and liabilities		<u>581,499</u>	<u>583,342</u>

Approved by the Board on 21 APRIL 2017



E Hawthorne
Director



D M Cooper
Director

Statement of changes in equity

for the year ended 31 December 2016

Arnold Clark Finance Limited

	Share capital £000	Profit and loss account £000	Total £000
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
As at 1 January 2016	15	72,252	72,267
Total comprehensive income	-	10,149	10,149
As at 31 December 2016	15	82,401	82,416

Notes to the financial statements

for the year ended 31 December 2016

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 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 2016. The financial statements are prepared in Sterling and are rounded to the nearest thousand pounds (£000).

3. Accounting policies

3.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law including FRS 101 "Reduced Disclosure Framework").

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 2016

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 Summary of 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)

Notes to the financial statements

for the year ended 31 December 2016

Arnold Clark Finance Limited

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.

Notes to the financial statements

for the year ended 31 December 2016

Arnold Clark Finance Limited

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.

Notes to the financial statements

for the year ended 31 December 2016

Arnold Clark Finance Limited

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.

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 2016

Arnold Clark Finance Limited

5. Revenue

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

	2016 £000	2015 £000
Sale of motor vehicles	366,654	377,738
Hiring of motor vehicles	180,676	181,491
	<u>547,330</u>	<u>559,229</u>

All income arises in the United Kingdom.

6. Operating profit

The following items have been included in arriving at operating profit from operations:

	2016 £000	2015 £000
Depreciation of property, plant and equipment	<u>123,311</u>	<u>120,500</u>

7. Auditor's remuneration

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

	2016 £000	2015 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	<u>18</u>	<u>18</u>

8. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2016 £000	2015 £000
Wages and salaries	15,061	14,176
Social security costs	1,307	1,199
Pension costs	300	316
Total employee benefits expense	<u>16,668</u>	<u>15,691</u>

Notes to the financial statements

for the year ended 31 December 2016

Arnold Clark Finance Limited

8. Employee benefits expense (continued)

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

	2016 No.	2015 No.
Office and management	529	486
Sales	169	172
	<u>698</u>	<u>658</u>

The Directors' emoluments were as follows:

	2016 £000	2015 £000
Emoluments	<u>186</u>	<u>183</u>

Directors emoluments are apportioned across Group companies based on service to each company. These are payable by Arnold Clark Automobiles Limited, the ultimate parent company.

9. Finance costs

	2016 £000	2015 £000
Finance charges payable under hire purchase agreements	<u>8,597</u>	<u>9,440</u>

10. Income tax

The major components of income tax expense are:

	2016 £000	2015 £000
<i>Current income tax:</i>		
UK corporation tax charge	5,467	6,101
Adjustments in respect of prior periods	67	(43)
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(2,928)	(2,926)
Adjustment in respect of prior periods	(72)	39
Effect of changes in tax rates	(149)	(235)
Income tax expense reported in the statement of profit or loss	<u>2,385</u>	<u>2,936</u>

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

Notes to the financial statements

for the year ended 31 December 2016

Arnold Clark Finance Limited

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:

	2016 £000	2015 £000
Accounting profit before income tax	12,534	15,535
At UK corporation tax rate of 20.00% (2015 - 20.25%)	2,507	3,146
Tax effect of non-deductible expenses or non-taxable items of income	32	29
Effect of changes in tax rates	(149)	(235)
Adjustments in respect of current income tax of prior years	67	(43)
Adjustments in respect of deferred tax of prior years	(72)	39
At the effective income tax rate of 19.1% (2015 - 18.9%)	2,385	2,936

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2016 has been calculated based on these rates.

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

	2016 £000	2015 £000
Accelerated capital allowances	10,598	13,747
Other temporary difference	(8)	(8)
Net deferred tax liability	10,590	13,739

Notes to the financial statements

for the year ended 31 December 2016

Arnold Clark Finance Limited

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 2016	3,982	3,302	691,425	1,715	700,424
Additions	-	94	458,475	521	459,090
Disposals	-	(5)	(461,444)	-	(461,449)
At 31 December 2016	3,982	3,391	688,456	2,236	698,065
<i>Depreciation:</i>					
At 1 January 2016	144	3,171	199,734	1,111	204,160
Provided during the year	80	102	122,915	214	123,311
Disposals	-	(5)	(127,179)	-	(127,184)
At 31 December 2016	224	3,268	195,470	1,325	200,287
<i>Net book value:</i>					
At 31 December 2016	3,758	123	492,986	911	497,778
At 31 December 2015	3,838	131	491,691	604	496,264

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

	2016 £000	2015 £000
Motor vehicles	24,865	24,993

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.

Notes to the financial statements

for the year ended 31 December 2016

Arnold Clark Finance Limited

13. Trade and other receivables

	2016 £000	2015 £000
Trade receivables	11,225	11,070
Other receivables	627	663
VAT recoverable	-	37
Prepayments and accrued income	1,764	1,861
	13,616	13,631

14. Issued share capital

The share capital at 31 December 2016 and 31 December 2015 is analysed as follows:

	Authorised		Allotted, called up and fully paid	
	2016 No.	2015 No.	2016 £000	2015 £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	
	2016 £000	2015 £000	2016 £000	2015 £000
Amounts payable				
Within one year	251,233	257,623	245,296	250,420
In two to five years	181,432	189,906	178,668	186,220
	432,665	447,529	423,964	436,640
Less: future finance charges	(8,701)	(10,889)		
Present value of hire purchase obligations	423,964	436,640		
Current interest-bearing borrowings:			245,296	250,420
Non-current interest-bearing borrowings			178,668	186,220
			423,964	436,640

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.

Notes to the financial statements

for the year ended 31 December 2016

Arnold Clark Finance Limited

16. Trade and other payables

	2016 £000	2015 £000
Trade payables	4,585	1,140
Other creditors	15,653	16,183
VAT payable	465	-
Accruals and deferred income	25,720	32,105
Amounts due to group undertakings	12,639	5,167
	<u>59,062</u>	<u>54,595</u>
Current liabilities	53,731	49,032
Non-current liabilities	5,331	5,563
	<u>59,062</u>	<u>54,595</u>

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 17 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:

	2016 £000	2015 £000
Within one year	395	252
After one year but not more than five years	1,443	568
More than five years	133	264
	<u>1,971</u>	<u>1,084</u>

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	
	2016 £000	2015 £000
Within one year	98,252	103,688
After one year but not more than five years	88,503	101,727
	<u>186,755</u>	<u>205,415</u>

Notes to the financial statements

for the year ended 31 December 2016

Arnold Clark Finance Limited

17. Commitments (continued)

Capital commitments

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

	2016 £000	2015 £000
Contracted but not provided for	51	47

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 2016, the Value Added Tax payable by other members of the group registration amounted to £8,747,000 (2015 - £851,000).

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 2016, the other companies included in the guarantee had net funds of £65,139,000 (2015 - £70,653,000) 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, 4th Floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, EH3 9FF.

The Directors consider that Lady Clark is the company's ultimate controlling party by virtue of her office, her shareholding and the shareholdings of her immediate family.