

Arnold Clark Finance Limited

39597

Report and Accounts
December 31, 1986



Arthur Young

A MEMBER OF ARTHUR YOUNG INTERNATIONAL
Chartered Accountants Glasgow

29 DEC 1987

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DIRECTORS' REPORT

The directors submit their report and accounts for the year ended December 31, 1986.

Results and dividends

The trading profit for the year, after taxation, amounted to £215,524.

The directors recommend that no dividend be paid.

Review of the business

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

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

The directors are of the opinion that the level of activity will be continued in 1987.

Directors and their interests

The directors at December 31, 1986 and their interests in the ordinary share capital of the company were as follows:

	<u>At December 31, 1986</u>	<u>At December 31, 1985</u>
J.A. Clark	980	980
H.D. Wallace	-	-

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

Auditors

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

BY ORDER OF THE BOARD

D. Ferguson Kerr

Secretary

December 7, 1987

43 Allison Street,
Glasgow, G42 8NJ



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

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Arthur Young

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

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

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

In our opinion the accounts, which have been prepared under the historical cost convention, give a true and fair view of the state of the company's affairs at December 31, 1986 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Arthur Young

December 7, 1987

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1986

	<u>Notes</u>	<u>1986</u> £	<u>1985</u> £
Turnover	2	8,814,345	6,019,571
Cost of sales		6,012,979	4,447,440
Gross profit		2,801,366	1,572,131
Administrative expenses		822,839	310,345
Operating profit	3	1,978,527	1,261,786
Interest receivable		28,434	3,237
Interest payable	5	1,693,433	1,152,779
		1,665,002	1,149,542
Profit on ordinary activities before taxation		313,525	112,244
Taxation charge/(credit)	6	98,001	(170,840)
Profit on ordinary activities after taxation		215,524	283,084
Retained profit brought forward		2,222,917	1,939,833
Retained profit carried forward		£2,438,441	£2,222,917

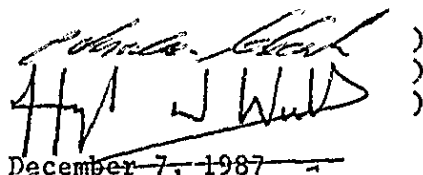
The notes on pages 6 to 10 form part of these accounts.

ARNOLD CLARK FINANCE LIMITED

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BALANCE SHEET AT DECEMBER 31, 1986

	<u>Notes</u>	£	<u>1986</u> £	<u>1985</u> £
Fixed assets				
Tangible assets	7	19,279,278		11,890,298
Current assets:				
Debtors	8	1,839,314		608,682
Cash at bank and in hand		1,899,473		2,294,226
		<u>3,738,787</u>		<u>2,902,908</u>
Creditors: amounts falling due within one year	9	10,239,004		6,313,914
Net current liabilities		6,500,217		3,411,006
Total assets less current liabilities		12,779,061		8,479,292
Creditors: amounts falling due after more than one year:				
H.P. creditor	10	9,294,778		5,557,290
Provision for liabilities and charges:				
Deferred taxation	11	1,030,842		684,085
		<u>£ 2,453,441</u>		<u>£ 2,237,917</u>
Capital and reserves:				
Called up share capital	12	15,000		15,000
Profit and loss account		2,438,441		2,222,917



) Director

December 7, 1987

£ 2,453,441

£ 2,237,917

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

STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1986

	<u>1986</u> £	<u>1985</u> £
Source of funds:		
Profit on ordinary activities before taxation	313,525	112,244
Adjustment for items not involving the movement of funds:		
Depreciation	4,401,472	3,114,195
(Profit)/loss on sale of fixed assets	(86,715)	9,927
	<hr/>	<hr/>
Total generated from operations	4,628,282	3,236,366
Funds from other sources:		
Proceeds of disposal of tangible fixed assets	4,036,160	2,996,277
Net movement on hire purchase obligations	5,579,864	3,911,496
	<hr/>	<hr/>
	14,244,306	10,144,139
Application of funds:		
Purchase of tangible fixed assets	15,739,897	8,694,472
Tax paid	86,038	—
	<hr/>	<hr/>
Working capital - (decrease)/increase	£(1,581,629) =====	£1,449,667 =====
Components of (decrease)/increase in working capital:		
Debtors	910,136	(219,528)
Creditors	(2,097,012)	(294,041)
	<hr/>	<hr/>
	(1,186,876)	(513,569)
Movement in net liquid funds:		
Cash at bank and in hand	(394,753)	1,963,236
	<hr/>	<hr/>
	£(1,581,629) =====	£1,449,667 =====

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

NOTES TO THE ACCOUNTS AT DECEMBER 31, 19861. Accounting policiesAccounting convention

The accounts are prepared under the historical cost convention.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Fixtures and fittings	-	15% (reducing balance basis)
Motor vehicles	-	25% (reducing balance basis)
Computer equipment	-	40% (reducing balance basis)
Freehold property	-	2% (straight line)

Deferred taxation

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future, calculated at the rate at which it is estimated that tax will be payable.

Leasing and hire purchase commitments

Assets obtained under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

2. Turnover

Turnover represents the invoiced amount of goods sold and services provided (stated net of value added tax).

The turnover and pre-tax profit all arises in the U.K. and is attributable to the company's principal activity.

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1986
(continued)

3. Operating profit

	<u>1986</u> £	<u>1985</u> £
(a) This is stated after charging or (crediting):		
Directors' remuneration (see below)	63,925	50,463
Auditors' remuneration	5,000	6,500
Depreciation	4,401,472	3,114,195
(Profit)/loss on disposal of fixed assets	(86,715)	9,927
	=====	=====

(b) Directors remuneration:

	£	£
Fees	35,000	25,000
Other emoluments (including pension contributions)	28,925	25,463
	-----	-----
	£63,925	£50,463
	=====	=====

The emoluments of the chairman, who was also the highest paid director, excluding pension contributions, were £35,000 (1985 - £25,000). Other directors' emoluments, excluding pension contributions, fell within the following ranges:

	No.	No.
£20,001 - £25,000	-	1
£25,001 - £30,000	1	-

4. Staff costs

	<u>1986</u> £	<u>1985</u> £
Wages and salaries	221,532	163,676
Social security costs	18,752	10,513
Other pension costs	1,300	1,565
	-----	-----
	£241,584	£175,754
	=====	=====

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

	No.	No.
Office and management	14	15
Sales	6	...
	=====	=====

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1986
(continued)

5. Interest payable

	<u>1986</u> £	<u>1985</u> £
Bank overdraft	36,909	40,165
Hire purchase	1,656,527	1,112,614
	-----	-----
	£1,693,436	£1,152,779
	=====	=====

6. Taxation charge/(credit)

	<u>1986</u> £	<u>1985</u> £
Based on the profit for the year:		
Group relief surrendered	(234,456)	-
Deferred taxation	366,744	91,546
Taxation under/(over) provided in previous years:		
Corporation tax	(14,300)	(71,925)
Deferred taxation	(19,987)	(190,461)
	-----	-----
	£ 98,001	£(170,840)
	=====	=====

7. Tangible fixed assets

	<u>Freehold property</u> £	<u>Computer equipment</u> £	<u>Motor vehicles</u> £	<u>Fixtures and fittings</u> £	<u>Total</u> £
Cost:					
At January 1, 1986	8,325	144,029	15,623,248	6,040	15,781,642
Additions	-	42,030	15,697,867	-	15,739,897
Disposals	-	-	(6,618,325)	-	(6,618,325)
	-----	-----	-----	-----	-----
At December 31, 1986	8,325	186,059	24,702,790	6,040	24,903,214
	-----	-----	-----	-----	-----
Depreciation:					
At January 1, 1986	42	44,888	3,843,990	2,424	3,891,344
Provided during the year	166	43,859	4,356,904	543	4,401,472
Disposals	-	-	(2,668,880)	-	(2,668,880)
	-----	-----	-----	-----	-----
At December 31, 1986	208	88,747	5,532,014	2,967	5,623,936
	-----	-----	-----	-----	-----
Net book value:					
At December 31, 1986	£8,117	£ 97,312	£19,170,776	£3,073	£19,279,278
	=====	=====	=====	=====	=====
At January 1, 1986	£8,283	£ 99,141	£11,779,258	£3,616	£11,890,298
	=====	=====	=====	=====	=====

The motor vehicles are held for use in operating leases.

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1986
(continued)

8. Debtors

	<u>1986</u> £	<u>1985</u> £
Trade debtors	129,343	163,779
Amount due by parent company	670,471	215,160
Other debtors	420,313	102,206
Prepayments and accrued income	619,187	127,537
	-----	-----
	£1,839,314	£608,682
	=====	=====

9. Creditors: amounts falling due within one year

	<u>1986</u> £	<u>1985</u> £
Bank overdraft (see below)	300,000	300,000
Obligations under hire purchase contracts (note 10)	6,655,805	4,813,429
Trade creditors	45,630	73,351
Current corporation tax	-	14,298
Other taxes and social security costs	859,038	267,518
Other creditors	294,306	152,415
Accruals and deferred income	2,084,225	692,903
	-----	-----
	£10,239,004	£6,313,914
	=====	=====

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

10. Obligations under hire purchase contracts

	<u>1986</u> £	<u>1985</u> £
Amounts payable within one year (note 9)	6,655,805	4,813,429
Over one year:		
In the second to fifth year inclusive	9,294,778	5,557,290
	-----	-----
	£15,950,583	£10,370,719
	=====	=====

11. Deferred taxation

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

	<u>1986</u>	<u>1985</u>
Accelerated capital allowances	£1,030,842	£684,085
	=====	=====

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1986
(continued)

12. Share capital

	<u>1986</u>	<u>Authorised</u>	<u>Allotted, called up</u>	
	<u>No.</u>	<u>1985</u>	<u>1986</u>	<u>1985</u>
Ordinary shares of £1 each	15,000	15,000	£15,000	£15,000
	=====	=====	=====	=====

13. Contingent liabilities

As agents for Motability Finance Limited, the company is committed to purchase all vehicles which are in a suitable condition and have been maintained under a motability contract by the company upon the expiry of the contract. As at December 31, 1986 the company maintained 2,694 (1985 - 1,648) vehicles under contract with a pre-arranged purchase cost of £6,137,151 (1985 - £3,043,327) of which 471 (1985 - 656) with a pre-arranged purchase cost of £886,650 (1985 - £1,193,350) terminate within one year.

- Under a group registration for Value Added Tax the company is jointly and severally liable for Value Added Tax due by any member company of the group registration. At December 31, 1986 the liability amounted to £516,401 (1985 - £232,968).

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

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

14. Capital commitments

	<u>1986</u>	<u>1985</u>
Contracted	£ -	£ -
	=====	=====
Authorised but not contracted	£ -	£ -
	=====	=====

15. Holding company

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

16. Transactions with holding company

Included in motor vehicle additions are vehicles with a purchase cost of £7,876,758 acquired from Arnold Clark Automobiles Limited.