ARNOLD CLARK FINANCE LIMITED
ANNUAL REPORT 2018

SC39597

Directors, principal officers and advisers

Arnold Clark Finance Limited

Directors

D M Cooper BAcc (Hons) FCCA	Managing Director
E Hawthorne BA CA	Director
K J McLean BAcc (Hons) CA	Director

Principal Officers

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

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

Managing Director's Statement

Arnold Clark Finance Limited

Review

It gives me great pleasure to report on another successful year for the Company in what has been a challenging market for the entire contract hire industry.

We started 2018 with fewer units in our contract hire and daily rental divisions compared to the same period in 2017. This resulted in a smaller number of vehicles available for disposal during the year, contributing to a decrease in revenue of £37.7m to £506.7m. By the end of the year we had increased units in all divisions beyond the level of 2017, creating a positive start to 2019.

Our contract hire fleet grew by 9.1% to 36,626 units at the end of 2018 and we retained our position as one of the ten largest leasing companies in the 2018 Fleet News Top 50. This is particularly pleasing given a number of challenges within the industry and general uncertainty in the UK economy arising from "Brexit". Rises in interest rates and increased road fund licence costs during 2018 were the primary contributors to a reduction in pre-tax profit of £0.6m to £9.1m. The new Worldwide Harmonised Light Vehicle Test (WLTP) which measures the level of CO_2 emissions was introduced at the end of August 2018 for all cars and is to be extended to light commercial vehicles in 2019. The introduction of the testing regime resulted in a rise in costs and some initial disruption to the supply chain. Testing has, on average, increased the recorded CO_2 emission levels for cars, increasing the benefit in kind value for company car drivers and the annual road tax cost. The scheduling of testing also created issues for some manufacturers, resulting in some delays to delivery times. The potential disruption arising from this was minimised through effective communication with our customers.

Our daily rental division had another record year with revenue increasing by 16.4% to £58.8m. This was as a result of a significant increase in private business via our website as well as increased corporate business. Fleet size remained relatively constant throughout the year, peaking at just over 11,000 vehicles to cope with seasonal customer demand. Several improvements were made to website functionality to make the customer experience even more seamless, including the introduction of Paypal as a method of payment. A new Point of Delivery system was also launched in 2018, allowing for the digital administration of the delivery and collection of vehicles. This is a further step towards the goal of eradicating paper in our rental business and implementing digital signatures for all documentation.

Growth

In 2018 we opened a new daily rental location in Leeds, expanding our offering to customers in Yorkshire. Further expansion across the UK is expected in 2019 as we partner with the wider Arnold Clark Group in identifying new markets and locations.

Due to the uncertainty regarding future benefit in kind rates on company cars, more and more customers have requested a personal leasing product. This demand resulted in the launch of a Personal Leasing Affinity scheme, allowing us to contract directly with individuals at no cost to employers.

Staff

We continue to invest in staff training & development and for the thirteenth year running we won the BVRLA City & Guilds Presidents Award - well done to Stephen Best from our Birtley rental branch who won the award this year. Additionally, our Daily Rental Operations Manager, Margaret Spiers, was appointed Chair of the BVRLA Rental Committee from June 2018. Margaret is a fantastic ambassador for the Company and daily rental industry as a whole.

We pride ourselves on understanding our customers and being able to assist them in what is an ever-changing industry. A constant focus on customer service resulted in us winning the Experteye CSI Award in early 2019. Seen by many as the ultimate honour in the sector, this annual award is based solely on independent feedback from fleet customers, leasing companies and drivers. I would like to express my sincere thanks to our staff for their hard work in achieving this accolade.

Managing Director's Statement

Arnold Clark Finance Limited

Outlook

I expect 2019 to be a challenging year politically and economically. As part of the Arnold Clark Group, our financial strength and resilience positions us well to cope with any developments. Historically, the business has proven to be adept in being able to cope with major changes in the industry as they arise such as vehicle excise duty changes, WLTP and interest rate rises. Despite the uncertain environment, 2019 has started well with our contract hire order book being more than double the same period in 2018.

Electric vehicle and battery development by manufacturers continues at a significant pace, producing more vehicles with fully charged ranges into the hundreds of miles. The production of electric vehicles by manufacturers is still relatively small scale and this has resulted in some supply issues already in 2019. I fully expect that electric vehicles will become an increasing part of the overall mobility solution as we move through 2019 and beyond.

During 2019, our aim is to continue to offer exceptionally high levels of customer satisfaction no matter what challenges we face in the year ahead.

D M Cooper
Managing Director
27 March 2019

Strategic Report

Arnold Clark Finance Limited

The Directors present their Strategic Report for the year ended 31 December 2018.

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:

	2018	2017	Change
Revenue	£506.7m	£544.4m	(6.9)%
Contract hire fleet	36,626	33,558	9.1%
Daily rental fleet	11,102	9,950	11.6%
Operating profit	£18.6m	£17.5m	6.3%

The decrease in turnover is due to disposing of less vehicles in 2018 compared to 2017. The contract hire and daily rental fleets grew throughout 2018 mainly due to increased demand from both private and public sector customers. The forecast for 2019 is that our overall fleet size and turnover should both increase.

A further review of the business is included in the 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

Daniel M Cooper

D M Cooper
Managing Director
27 March 2019

Directors' Report

Arnold Clark Finance Limited

The Directors present their report for the year ended 31 December 2018.

Results and dividends

The profit on ordinary activities before taxation amounted to £9,064,000 (2017 - £9,701,000). The profit for the year, after taxation, amounted to £7,417,000 (2017 - £8,053,000).

The Directors do not recommend the payment of a dividend (2017 - £20,000,000). The profit of £7,417,000 (2017 - net deficit after dividend of £11,947,000) has been transferred to reserves.

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:

D M Cooper
E Hawthorne
K J McLean

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
27 March 2019

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

Opinion

We have audited the financial statements of Arnold Clark Finance Limited for the year ended 31 December 2018 which comprise Statement of Profit or Loss and Other Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and the related notes 1 to 19, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditors' Report

to the members of Arnold Clark Finance Limited

Opinions 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; and
- the Strategic Report and 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 not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Ernst & Young LLP

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

28 March 2019

Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2018

Arnold Clark Finance Limited

	Notes	2018 £000	2017 £000
Revenue	5	506,726	544,423
Cost of sales		(450,112)	(492,848)
Gross profit		56,614	51,575
Administrative expenses		(37,983)	(34,091)
Operating profit	6	18,631	17,484
Finance costs	9	(9,567)	(7,783)
Profit before tax from continuing operations		9,064	9,701
Income tax expense	10	(1,647)	(1,648)
Profit for the year		7,417	8,053
Other comprehensive income		-	-
Total comprehensive income for the year		7,417	8,053

All operations are classed as continuing operations during the year.

Statement of Financial Position
at 31 December 2018

Arnold Clark Finance Limited

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Property, plant and equipment	11	570,982	502,184
Current assets			
Inventories	12	4,672	19,659
Trade and other receivables	13	26,610	16,425
Cash and cash equivalents		9,206	16,046
		40,488	52,130
Total assets		611,470	554,314
Equity and liabilities			
Issued share capital	14	15	15
Profit and loss account		77,871	70,454
Total equity		77,886	70,469
Non-current liabilities			
Interest-bearing loans and borrowings	15	225,040	176,845
Other liabilities	16	5,019	4,823
Deferred tax liabilities	10	6,927	7,784
		236,986	189,452
Current liabilities			
Interest-bearing loans and borrowings	15	242,971	245,603
Trade and other payables	16	51,108	44,337
Income tax payable		2,519	4,453
		296,598	294,393
Total liabilities		533,584	483,845
Total equity and liabilities		611,470	554,314

Approved by the Board on 27 March 2019

E Hawthorne
Director

D M Cooper
Director

Statement of Changes in Equity

for the year ended 31 December 2018

Arnold Clark Finance Limited

	Share capital £000	Profit and loss account £000	Total £000
As at 1 January 2017	15	82,401	82,416
Total comprehensive income	-	8,053	8,053
Dividends to shareholders	-	(20,000)	(20,000)
As at 31 December 2017	15	70,454	70,469
As at 1 January 2018	15	70,454	70,469
Total comprehensive income	-	7,417	7,417
As at 31 December 2018	15	77,871	77,886

Notes to the Financial Statements
for the year ended 31 December 2018

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 2018. 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 IAS 24 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.

3.2 Standards issued and in effect

In the current year, the Company adopted the following new standards:

IFRS 9 Financial Instruments
IFRS 15 Revenue from Contracts with Customers

The adoption of these new standards has had no significant impact.

A full review of standards in issue but not yet effective is included in the financial statements of the parent entity, Arnold Clark Automobiles limited.

3.3 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 are satisfied 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.

3.4 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 directly attributable 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)

3.4 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 and Other Comprehensive Income 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 and Other Comprehensive Income.

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's") 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 and Other Comprehensive Income. The losses arising from impairment are recognised in the Statement of Profit or Loss and Other Comprehensive Income 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.

3.4 Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets

For financial assets carried at amortised cost, impairment losses are calculated based on an 'expected credit loss' model as permitted under IFRS 9. The amount of any impairment loss identified is measured as the difference between the contractual cashflows due less what the Company expects to receive. Trade and other receivables are considered to be in default when borrower is unlikely to pay its credit obligations in full after reasonable actions have been taken to recover the debt.

Cash balances are held with The Royal Bank of Scotland plc. Management do not expect the bank to fail to meet its obligations.

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 and Other Comprehensive Income. 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.

3.4 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 and Other Comprehensive Income. The effect of the time value of money is not material and therefore the provisions are not discounted.

Revenue recognition

Turnover represents the consideration attributable to each performance obligation satisfied in any given contract with our customers (stated net of value added tax). The revenue and pre-tax profit all arises in the UK and is attributable to the Company's principal continuing activities.

For sale of goods, the performance obligation is satisfied when the goods are delivered. Revenue is therefore recognised on delivery to the customer.

Rentals receivable on vehicles held for use in operating leases are recognised on a straight line basis over the term of the lease. The performance obligation, being the promise to provide the customer with the contracted vehicle for the agreed period of time, is satisfied over the term of the agreement as the customer simultaneously receives and consumes the benefit of having use of the vehicle for the period in which the Company provides the vehicle.

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.

5. Revenue

Revenue recognised in the Statement of Profit or Loss and Other Comprehensive Income is analysed as follows:

	2018 £000	2017 £000
Selling of motor vehicles	313,934	364,796
Hiring of motor vehicles	192,792	179,627
	506,726	544,423

All income arises in the United Kingdom.

6. Operating profit

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

	2018 £000	2017 £000
Depreciation of property, plant and equipment	129,469	123,185

Notes to the Financial Statements

for the year ended 31 December 2018

Arnold Clark Finance Limited

7. Auditor's remuneration

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

	2018 £000	2017 £000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	18	18

8. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2018 £000	2017 £000
Wages and salaries	18,905	16,864
Social security costs	1,591	1,422
Pension costs	499	366
Total employee benefits expense	20,995	18,652

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

	2018 No.	2017 No.
Office and management	670	599
Sales	168	166
	838	765

The Directors' emoluments were as follows:

	2018 £000	2017 £000
Emoluments	189	182

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

	2018 £000	2017 £000
Finance charges payable under hire purchase agreements	9,567	7,783

10. Income tax

The major components of income tax expense are:

	2018 £000	2017 £000
Current income tax:		
UK corporation tax charge	2,519	4,453
Adjustments in respect of prior periods	(15)	1
Deferred tax:		
Origination and reversal of timing differences	(754)	(2,555)
Adjustment in respect of prior periods	14	(2)
Effect of changes in tax rates	(117)	(249)
Income tax expense reported in the Statement of Profit or Loss	1,647	1,648

There was no tax charged to the Statement of Other Comprehensive Income in either year.

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

	2018 £000	2017 £000
Accounting profit before income tax	9,064	9,701
At UK corporation tax rate of 19% (2017 - 19.25%)	1,722	1,867
Tax effect of non-deductible expenses or non-taxable items of income	43	31
Effect of changes in tax rates	(117)	(249)
Adjustments in respect of current income tax of prior years	(15)	1
Adjustments in respect of deferred tax of prior years	14	(2)
At the effective income tax rate of 18.2% (2017 - 17.0%)	1,647	1,648

A reduction in the UK corporation tax rate from 20% 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 2018 has been calculated based on these rates.

The deferred tax included in the Statement of Financial Position is as follows:

	2018 £000	2017 £000
Accelerated capital allowances	6,942	7,799
Other temporary difference	(15)	(15)
Net deferred tax liability	6,927	7,784

11. Property, plant and equipment

	Land and buildings £000	Computer equipment £000	Motor vehicles £000	Fixtures and fittings £000	Total £000
Cost:					
At 1 January 2018	4,005	1,508	694,215	2,268	701,996
Additions	-	580	478,718	425	479,723
Disposals	-	(11)	(402,822)	(8)	(402,841)
At 31 December 2018	4,005	2,077	770,111	2,685	778,878
Depreciation:					
At 1 January 2018	304	1,386	197,012	1,110	199,812
Provided during the year	82	484	128,589	314	129,469
Disposals	-	(10)	(121,375)	-	(121,385)
At 31 December 2018	386	1,860	204,226	1,424	207,896
Net book value:					
At 31 December 2018	3,619	217	565,885	1,261	570,982
At 31 December 2017	3,701	122	497,203	1,158	502,184

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

	2018 £000	2017 £000
Motor vehicles	4,672	19,659

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

	2018 £000	2017 £000
Trade receivables	17,578	12,793
Other receivables	1,747	756
VAT recoverable	2,754	-
Prepayments and accrued income	4,531	2,876
	26,610	16,425

14. Issued share capital

The share capital at 31 December 2018 and 31 December 2017 is analysed as follows:

	Authorised		Allotted, called up and fully paid	
	2018 No.	2017 No.	2018 £000	2017 £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	
	2018 £000	2017 £000	2018 £000	2017 £000
Amounts payable:				
Within one year	251,205	251,754	242,971	245,603
In two to five years	229,713	179,978	225,040	176,845
	480,918	431,732	468,011	422,448
Less: future finance charges	(12,907)	(9,284)		
Present value of hire purchase obligations	468,011	422,448		

Current interest-bearing borrowings:	242,971	245,603
Non-current interest-bearing borrowings	225,040	176,845
	468,011	422,448

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

	2018 £000	2017 £000
Trade payables	3,864	4,696
Other taxes and social security costs	-	737
Other creditors	15,286	14,869
Accruals and deferred income	30,649	26,387
Amounts due to group undertakings	6,328	2,471
	56,127	49,160
Current liabilities	51,108	44,337
Non-current liabilities	5,019	4,823
	56,127	49,160

Amounts included in non-current liabilities relate to rentals paid in advance, which are included in accruals and deferred income. 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 15 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:

	2018 £000	2017 £000
Within one year	419	421
After one year but not more than five years	796	1,203
More than five years	111	122
	1,326	1,746

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 receivable under non-cancellable operating leases at 31 December are as follows:

	Contract hire vehicles	
	2018 £000	2017 £000
Within one year	105,931	95,626
After one year but not more than five years	102,277	90,181
	208,208	185,807

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 2018, the Value Added Tax payable by other members of the group registration amounted to £2,133,000 (2017 - £9,701,000).

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 2018, the other companies included in the guarantee had net funds of £89,856,000 (2017 - £103,034,000) 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.