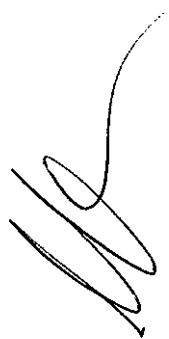


# Arnold Clark Finance Limited

## Report and Accounts

31 December 1997

*Registered No. 39597*



# Arnold Clark Finance Limited

## DIRECTORS, PRINCIPAL OFFICERS AND ADVISERS

### DIRECTORS

J A CLARK F.I.M.I	-	CHAIRMAN
H D WALLACE	-	MANAGING DIRECTOR

### PRINCIPAL OFFICERS

E HAWTHORNE B. A C.A.	-	GROUP FINANCIAL CONTROLLER
A J CLARK	-	GENERAL MANAGER HIRE DRIVE
D F KERR M.A (Cantab)	-	COMPANY SECRETARY

### REGISTERED OFFICE

43 ALLISON STREET  
GLASGOW G42 8NJ

### REGISTERED NUMBER

39597

### AUDITORS

ERNST & YOUNG  
GEORGE HOUSE  
50 GEORGE SQUARE  
GLASGOW G2 1RR

### TAX ADVISERS

GRANT THORNTON  
112 WEST GEORGE STREET  
GLASGOW G2 1QF

### SOLICITORS

GORDON & SMYTH  
420 SAUCHIEHALL STREET  
GLASGOW G2 3JS

COCHRAN SAYERS & COOK  
33A GORDON STREET  
GLASGOW G1 3PQ

### PRINCIPAL BANKERS

ROYAL BANK OF SCOTLAND PLC  
1304 DUKE STREET  
GLASGOW G31 5PZ

# Arnold Clark Finance Limited

## DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31 December 1997.

### RESULTS AND DIVIDENDS

The profit on ordinary activities before taxation amounted to £5,797,000. The trading profit for the year, after taxation, amounted to £4,356,000.

The directors recommend that no dividend be paid which leaves the profit of £4,356,000 to be retained.

### REVIEW OF THE BUSINESS

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

The directors are pleased to report that both the company's sales activity and pre-tax profits have increased by 15% and 16% respectively over the 1996 results. This increase has arisen from a continued period of stability in interest rates, effective control of overhead expenditure and the expansion of our quality customer base. The directors are of the opinion that this level of activity will be continued successfully in 1998.

The balance sheet discloses net current liabilities of £30.4m arising primarily as a result of hire purchase payments due on contract hire vehicles. These payments will be met from the vehicle rental incomes receivable in 1998 arising under the relevant contract hire agreements.

### DISABLED EMPLOYEES

The group's policy on disabled employees is contained within the Directors report of Arnold Clark Automobiles Limited.

### DIRECTORS AND THEIR INTERESTS

The directors of the company during the year and at the date of this report are:

J A Clark  
H D Wallace

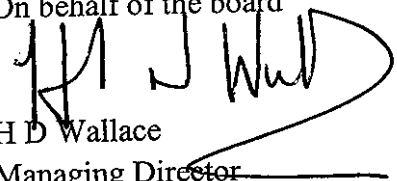
No director had any interest in the ordinary share capital of the company during the year. The interests of J A Clark in the share capital of Arnold Clark Automobiles Limited, the ultimate holding company, are disclosed in those accounts. H D Wallace has no interest in the ordinary share capital of the holding company.

H D Wallace retires by rotation and, being eligible, offers himself for re-election.

### AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the annual general meeting.

On behalf of the board

  
H D Wallace  
Managing Director

27 February 1998.

## Arnold Clark Finance Limited

### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which 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 accounts, the directors are required to :

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. 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.

## REPORT OF THE AUDITORS

to the members of Arnold Clark Finance Limited

We have audited the accounts on pages 5 to 15 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 9.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

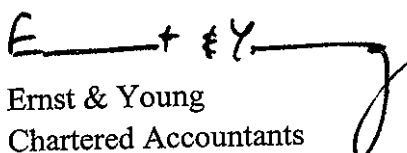
### BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young  
Chartered Accountants  
Registered Auditor  
Glasgow

27 February 1998.

**Arnold Clark Finance Limited**  
**PROFIT AND LOSS ACCOUNT**  
for the year ended 31 December 1997

	<i>Notes</i>	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
<b>TURNOVER</b>	2	51,051	44,387
Cost of sales		32,250	29,016
		<hr/>	<hr/>
<b>GROSS PROFIT</b>		18,801	15,371
Administrative expenses		6,929	5,355
		<hr/>	<hr/>
Operating profit	3	11,872	10,016
		<hr/>	<hr/>
Bank interest receivable		-	-
Interest payable	6	6,075	5,017
		<hr/>	<hr/>
		6,075	5,017
		<hr/>	<hr/>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		5,797	4,999
Tax on profit on ordinary activities	7	1,441	1,654
		<hr/>	<hr/>
<b>RETAINED PROFIT FOR THE YEAR</b>		4,356	3,345
Retained profit brought forward		19,040	15,695
		<hr/>	<hr/>
Retained profit carried forward		23,396	19,040
		<hr/> <hr/>	<hr/> <hr/>

**RECOGNISED GAINS AND LOSSES**

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £4,356,000 in the year ended 31 December 1997 and of £3,345,000 in the year ended 31 December 1996.

# Arnold Clark Finance Limited

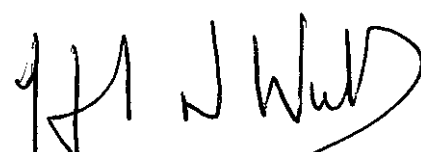
## BALANCE SHEET

at 31 December 1997

	Notes	1997 £'000	1996 £'000
<b>FIXED ASSETS</b>			
Tangible assets	8	100,521	84,916
<b>CURRENT ASSETS</b>			
Debtors	9	5,447	3,810
Cash at bank and in hand	11	26,157	26,334
		31,604	30,144
<b>CREDITORS: amounts falling due within one year</b>	10	61,982	58,368
<b>NET CURRENT LIABILITIES</b>		30,378	28,224
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		70,143	56,692
<b>CREDITORS: amounts falling due after more than one year:</b>			
Obligations under hire purchase contracts	12	38,002	29,990
Rentals in advance		1,378	847
		39,380	30,837
<b>PROVISION FOR LIABILITIES AND CHARGES</b>			
Deferred taxation	13	7,352	6,800
		23,411	19,055
<b>CAPITAL AND RESERVES</b>			
Called up share capital	14	15	15
Profit and loss account		23,396	19,040
		23,411	19,055



J A Clark  
Chairman



H D Wallace  
Managing Director

27 February 1998

# Arnold Clark Finance Limited

## CASH FLOW STATEMENT

For the year ended 31 December 1997

	<i>Notes</i>	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>4</b>	<b>31,053</b>	<b>28,689</b>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest elements of hire purchase payments		(5,817)	(5,108)
<b>TAXATION</b>			
Corporation tax paid		(1,145)	(1,379)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire fixed assets		(75,052)	(63,370)
Receipts from sales of fixed assets		39,541	35,414
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(35,511)</b>	<b>(27,956)</b>
		<b>(11,420)</b>	<b>(5,754)</b>
<b>FINANCING</b>			
Repayment of capital element of hire purchase borrowings		(76,670)	(66,260)
New hire purchase borrowings		87,913	75,738
		<b>11,243</b>	<b>9,478</b>
<b>(DECREASE)\ INCREASE IN CASH</b>		<b>(177)</b>	<b>3,724</b>



# Arnold Clark Finance Limited

## CASH FLOW STATEMENT

For the year ended 31 December 1997

### RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT

	<i>Notes</i>	<i>1997</i> <i>£'000</i>	<i>1996</i> <i>£'000</i>
(Decrease)\ Increase in cash		(177)	3,724
Cash used to repay capital element of hire purchase payments		76,670	66,260
New hire purchase contracts		(87,913)	(75,738)
<b>MOVEMENT IN NET DEBT</b>		<u>(11,420)</u>	<u>(5,754)</u>
<b>NET DEBT AT 1 JANUARY</b>		<u>(43,519)</u>	<u>(37,765)</u>
<b>NET DEBT AT 31 DECEMBER</b>	<b>11</b>	<u><u>(54,939)</u></u>	<u><u>(43,519)</u></u>

# Arnold Clark Finance Limited

## NOTES TO THE ACCOUNTS

at 31 December 1997

### 1. ACCOUNTING POLICIES

#### *Accounting convention*

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

#### *Depreciation*

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

Fixtures and fittings	- 15% (reducing balance basis)
Motor vehicles	- 20% (reducing balance basis)
Computer equipment	- 40% (reducing balance basis)
Freehold property	- 2% (straight line basis)

#### *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 the profit and loss account over the period of the contract 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.

### 3. OPERATING PROFIT

	1997 £'000	1996 £'000
(a) This is stated after charging:		
Directors' remuneration (see below)	95	88
Auditors' remuneration - audit services	14	14
Depreciation - owned assets	150	130
- assets under hire purchase contracts	19,756	17,817
Loss on disposal of fixed assets	-	-

# Arnold Clark Finance Limited

## NOTES TO THE ACCOUNTS

at 31 December 1997

### 3. OPERATING PROFIT (continued)

	1997 £'000	1996 £'000
(b) Directors' remuneration:		
Aggregate disclosures		
Emoluments	95	88
	<u>95</u>	<u>88</u>

No director was a member of a company pension fund.

### 4. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997 £'000	1996 £'000
Operating profit	11,872	10,016
Depreciation	19,906	17,947
(Increase)/decrease in working capital:		
Debtors	(1,637)	1,469
Creditors	912	(743)
	<u>31,053</u>	<u>28,689</u>
Net cash inflow from operating activities		

### 5. STAFF COSTS

	1997 £'000	1996 £'000
Wages and salaries	3,919	3,142
Social security costs	317	271
	<u>4,236</u>	<u>3,413</u>

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

	No.	No.
Office and management	315	352
Sales	80	70
	<u>395</u>	<u>422</u>

# Arnold Clark Finance Limited

## NOTES TO THE ACCOUNTS

at 31 December 1997

### 6. INTEREST PAYABLE

	<i>1997</i>	<i>1996</i>
	<i>£'000</i>	<i>£'000</i>
Payable under hire purchase contracts	<u>6,075</u>	<u>5,017</u>

### 7. TAXATION CHARGE

	<i>1997</i>	<i>1996</i>
	<i>£'000</i>	<i>£'000</i>
Based on the profit for the year:		
Corporation tax at 31.5% (1996 – 33%)	605	1,135
Deferred taxation	<u>964</u>	<u>519</u>
	1,569	1,654
Taxation under/(over) provided in previous years:		
Corporation tax	284	-
Deferred taxation	<u>(412)</u>	<u>-</u>
	<u>1,441</u>	<u>1,654</u>

# Arnold Clark Finance Limited

## NOTES TO THE ACCOUNTS

at 31 December 1997

### 8. TANGIBLE FIXED ASSETS

	<i>Freehold property £'000</i>	<i>Computer equipment £'000</i>	<i>Motor vehicles £'000</i>	<i>Fixtures and fittings £'000</i>	<i>Total £'000</i>
Cost:					
At 1 January 1997	127	217	111,687	36	112,067
Additions	-	199	74,853	-	75,052
Disposals	-	-	(58,290)	-	(58,290)
At 31 December 1997	127	416	128,250	36	128,829
Depreciation:					
At 1 January 1997	20	94	27,017	20	27,151
Provided during the year	2	64	19,838	2	19,906
Disposals	-	-	(18,749)	-	(18,749)
At 31 December 1997	22	158	28,106	22	28,308
Net book value:					
At 31 December 1997	105	258	100,144	14	100,521
At 1 January 1997	107	123	84,670	16	84,916

All of the company's motor vehicles are purchased by way of hire purchase agreements and are held for use in operating leases.

# Arnold Clark Finance Limited

## NOTES TO THE ACCOUNTS

at 31 December 1997

### 9. DEBTORS

	<i>1997</i>	<i>1996</i>
	<i>£'000</i>	<i>£'000</i>
Trade debtors	3,058	2,299
Other debtors	1,312	627
Prepayments and accrued income	1,077	884
	<u>5,447</u>	<u>3,810</u>

### 10. CREDITORS: amounts falling due within one year

	<i>1997</i>	<i>1996</i>
	<i>£'000</i>	<i>£'000</i>
Obligations under hire purchase contracts (note 12)	43,094	39,863
Trade creditors	895	759
Corporation tax payable	878	1,134
Other taxes and social security costs	1,011	716
Other creditors	7,891	6,842
Accruals and deferred income	7,448	7,923
Amounts due to parent company	764	1,121
Amounts due to fellow subsidiaries	1	10
	<u>61,982</u>	<u>58,368</u>

# Arnold Clark Finance Limited

## NOTES TO THE ACCOUNTS

at 31 December 1997

### 11. ANALYSIS OF NET DEBT

	<i>At 1 January 1997 £'000</i>	<i>Cash Flow £'000</i>	<i>At 31 December 1997 £'000</i>
Cash at bank and in hand	26,334	(177)	26,157
Hire purchase contracts	(69,853)	(11,243)	(81,096)
	<u>(43,519)</u>	<u>(11,420)</u>	<u>(54,939)</u>

### 12. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

	<i>1997 £'000</i>	<i>1996 £'000</i>
Amounts payable:		
Within one year (note 10)	43,094	39,863
Between two and five years	38,002	29,990
	<u>81,096</u>	<u>69,853</u>

### 13. DEFERRED TAXATION

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

	<i>1997 £'000</i>	<i>1996 £'000</i>
Accelerated capital allowances	<u>7,352</u>	<u>6,800</u>

### 14. SHARE CAPITAL

	<i>1997 No.</i>	<i>Authorised 1996 No.</i>	<i>Allotted, called up and fully paid 1997 £'000</i>	<i>1996 £'000</i>
Ordinary shares of £1 each	<u>15,000</u>	<u>15,000</u>	<u>15</u>	<u>15</u>

# Arnold Clark Finance Limited

## NOTES TO THE ACCOUNTS

at 31 December 1997

### 15. RECONCILIATION OF SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
At 1 January	19,055	15,710
Profit for the year	4,356	3,345
At 31 December	<u>23,411</u>	<u>19,055</u>

### 16. OTHER FINANCIAL COMMITMENTS

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 31 December 1997 the company maintained 31,399 (1996 - 21,599) vehicles under contract with a pre-arranged purchase cost of £140,991,000 (1996 - £86,945,000) of which 6,207 (1996 - 4,648) with a pre-arranged purchase cost of £24,703,000 (1996 - £17,321,000) terminate within one year.

### 17. CONTINGENT LIABILITIES

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 31 December 1997 the liability amounted to £2,859,000 (1996 - £1,809,000).

Under the terms of an inter company guarantee granted to The Royal Bank of Scotland plc the company has together with Arnold Clark Automobiles Limited and Macharg Rennie & Lindsay 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.

### 18. 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 accounts are drawn up and of which the company is a member. The address from which copies of these group accounts are available to the public is: The Registrar of Companies, Companies House, 37 Castle Terrace, Edinburgh, EH1 2EB.

The Company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are part of the Arnold Clark Automobiles Limited group or investees of the group.