Arnold Clark Automobiles Limited
Annual Report

31 December 2013

Directors, Principal Officers and Advisers

Registered Number: 36386 (Scotland)

Company Directors

Sir Arnold Clark DUniv FIMI	Chairman and Chief Executive
E Hawthorne BA CA	Group Managing Director
K J McLean B Acc (Hons) CA	Group Finance Director
S Willis	Group Sales Director
Lady Clark MA (Glasgow)	Director
H D Wallace	Director
W G P Gall FIMI	Director

Operations Board

R E Borrie	Group Franchise Director and Director of Harry Fairbairn Limited
A D Brown BA (Hons) CA	Group Financial Operations Director
J A Clark BA MSc MIMI	Group Franchise Director
D M Cooper B Acc (Hons) FCCA	Group Retail Finance & Leasing Director and Director of Arnold Clark Finance Limited
G R M Forbes BA (Hons)	Group Customer Service and Operations Director
C S Henry BA (Hons) FCIPD	Group Human Resources Director and Director of GTG Training Limited
S J MacAulay MIMI	Group Aftersales Director
S K Thorpe BA (Hons) FCA	Company Secretary

Other Principal Officers

S Ashforth BA (Hons)	Group Marketing Manager
W J Stoddart	Group Bodyshop Manager

Registered Office

134 Nithsdale Drive
Glasgow G41 2PP

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

Grant Thornton UK LLP
95 Bothwell Street, Glasgow G2 7JZ

VAT Advisers

Deloitte LLP
1 City Square, Leeds LS1 2AL

Chairman's Statement

Registered Number: 36386 (Scotland)

Trading and results

It gives me great pleasure to report on another successful year for the group. At the time of writing my report, Arnold Clark celebrates its 60th anniversary and it is fitting that we reach this milestone having posted record sales figures. Turnover rose by 17.5% to a record high of £2.92bn and operating profit before goodwill amortisation increased by a remarkable 33.0% to £97.0m.

Used vehicle sales also rose by an incredible 16.8% as a result of both organic and incremental growth, following a number of acquisitions in the prior year. New vehicle sales increased by 10.9% to 88,697 reflecting a strengthening in the UK new car market generally and the branches acquired in 2012 trading for a full year.

Arnold Clark Finance Limited, our vehicle management and daily rental business, once again made a significant contribution to group profits. The company posted an increase in turnover to £170m and profit before tax rose 5.5% to £12.0m.

Acquisitions and investment

After an unprecedented number of acquisitions in 2012, the focus in the past year has been on maximising the performance of both new and existing sites, although the trade and assets of a Vauxhall dealership in Ayr were purchased in October to further strengthen our franchise offering in the area.

Due to strong operational cash flows, the group was able to continue to add to its investment portfolio during the year. In the first half of the year, we reported that tenanted motor dealerships had been purchased in Leicester, Glasgow and Stirling. Further properties were then added in Warrington, Stourbridge and Wolverhampton over the subsequent six month period. Such investments offer a suitable return without exposing the group to any significant level of risk. During the year, we also purchased the freehold to our Harry Fairbairn branded BMW showroom in Kirkcaldy.

Following a period of major refurbishment, GTG Training Limited officially opened its multi-million pound training centre in Wolverhampton in June. The site provides us with bespoke training in England, as we continue to expand geographically, and also affords us the opportunity to engage with local authorities and businesses in the region by offering third party training and conferencing facilities. I am also pleased to announce that the existing GTG Training Limited premises in the Sighthill area of Edinburgh will be relocated to a larger site close to the airport, following the acquisition of a substantial property at Newbridge in October.

In September, we acquired the entire share capital of Towquest Limited, who are the main software provider for Arnold Clark Finance Limited. This measure safeguards the development of Towquest products and ensures that the system will continue to fulfil our ongoing requirements.

Chairman's Statement

Registered Number: 36386 (Scotland)

Refurbishment and development

The redevelopment and refurbishment of our existing dealerships continued throughout 2013. Work was completed on a new purpose built facility in Armadale, West Lothian, to replace the existing Citroen showroom in the town centre. The site, which is officially the largest Citroen dealership in the UK, has posted strong trading figures since opening in December.

Large scale redevelopments were also undertaken at some of the sites that were acquired in 2012. All of our five Mercedes branches underwent significant upgrading to enhance the customer environment. In addition, the two Volkswagen sites in Wishaw and Rutherglen, near Glasgow, underwent substantial renovation during the year. This means that all of our largest Volkswagen sites have been refurbished to the highest franchise standard requirements.

A new dealership was built to house the Chevrolet franchise in Perth and further new build developments were completed at our Toyota site in East Kilbride and at our Ford dealership in Langstracht, Aberdeen. Work was also underway in Kirkcaldy at the year end to build a stand-alone Mini showroom across from our existing BMW franchise. In the Seafield area of Edinburgh, a shared Kia and Fiat site was substantially completed and commenced trading last month. Other notable projects included the refurbishment of four Vauxhall branches at key sites across the UK, and the refit of our Cumbernauld Kia branch.

Business Development

A strong internet presence is vital in modern vehicle retailing. During 2013, we continued to invest heavily in the development of our industry renowned website, www.arnoldclark.com, which received record levels of traffic in 2013 and welcomed over 17 million web visitors. As a result of our digital focus, online sales enquiries have increased by 29% and we have truly cemented our position as the UK's number one dealer website.

During 2013, the group launched a new sales licence initiative making it a mandatory requirement for all new sales executives to complete a structured training program. The modules have been specifically tailored to deliver both practical and theoretical training within a strong mentoring framework. Such steps highlight our continued commitment to training and developing our staff to ensure an unrivalled customer experience.

Awards and recognition

It gives me great pleasure to announce that Arnold Clark recently won the Retailer of the Year award for the third consecutive year at the prestigious Automotive Management Awards. This is a huge achievement and is a testament to the hard work, determination and consistency displayed by each and every member of our staff. We strive to continually improve the service we provide and are grateful that these efforts have been recognised within the industry. Our aftersales department was also acknowledged when we successfully defended the title of Tyre Retailer of the Year. Further success was also to be had at the Car and Accessory Trader Awards where we were voted Best Large Factor.

Operations Board

Almost two years ago, the Directors and I introduced our Operations Board as a new senior tier of management. During this time, we have delivered record sales figures, driven efficiency across the group and, most importantly, seen an increase in customer satisfaction. In recognition of the members of the Operations Board fulfilling their objectives and to reflect their increasing responsibilities, the board members have now each been given the title of Director. In addition, in an increasingly complex legislative environment, Stuart Thorpe FCA was appointed as Company Secretary and elevated to the Operations Board.

Chairman's Statement

Registered Number: 36386 (Scotland)

Future prospects

On behalf of the Board, I would like to thank our customers for their continued support and our staff for their commitment and invaluable contribution in what was an excellent year for the group. Despite some signs of improvement in the wider economy, we anticipate a challenging year ahead for the motor industry. We have consistently demonstrated that we can succeed against this backdrop and early trading results have been encouraging.

Our commitment to driving the company forward through unrivalled customer value and satisfaction remains as strong as it ever has over the last 60 years. I believe we are leading the way in the motor retail sector and look forward with confidence to what should be another successful year.

Sir Arnold Clark
Chairman
28 March 2014

Strategic Report

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

The directors present their strategic report for the year ended 31 December 2013.

Review of the business

The group's principal activities during the year were the hiring, selling and servicing of motor vehicles.

The group balance sheet discloses net current liabilities of £101m, arising primarily as a result of hire purchase payments due on contract hire vehicles. These payments will be met from vehicle rental income receivable in the future under the relevant contract hire agreements.

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

	2013	2012	Change (%)
Group turnover	£2,919m	£2,484m	17.5%
New car sales (units)	88,697	79,979	10.9%
Used car sales (units)	142,964	122,398	16.8%
Group operating profit before amortisation of goodwill	£97.0m	£73.0m	33.0%

Used car sales increased by 16.8%, which was a tremendous performance and was the main contributor to our increase in profitability. Like for like sales increased by 9.3%, in what was a generally robust market.

New car sales grew by 10.9% in the year and like for like sales increased by 1.7%. The wider new vehicle market was buoyant in 2013 although it is predicted that growth will flatten in the coming year. Fleet sales increased by 13.0%, due to a combination of the branches acquired in 2012 trading for a full year and some significant contracts gained in the year.

Turnover reached a record high of £2,919m and group operating profit before amortisation of goodwill increased to £97.0m as a result of the significant rise in vehicle sales and strong residual values.

The board anticipate that 2014 will see modest growth in the UK motor industry as the wider economy shows some signs of improvement. The financial strength of the company and the early trading results mean we can look forward with confidence. The board predict that, whilst turnover will continue to grow in the coming year, it will not grow at the same rates experienced in 2013 and expect profitability to remain at similar levels.

A further review of the business is provided in the Chairman's Statement on pages 3 to 5.

Strategic Report

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

Principal risks and uncertainties

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

Financial instrument risks: The group's principal financial instruments comprise cash, cash equivalents, bank loans and hire purchase contracts. Other financial assets and liabilities, such as trade creditors and trade debtors, arise directly from operating activities.

Interest rate risk: The group invests surplus cash in a floating rate interest yielding bank deposit account and in short and medium term certificates of deposit. The group also has access to a floating rate interest bearing revolving credit facility. Hire purchase agreements and term loans are entered into at floating interest rates. The group's interest income and expenses are therefore affected by movements in interest rates. The group does not undertake active hedging of this risk.

Credit risk: The group has external debtors; however, the group undertakes assessments of its customers in order to ensure that credit is not extended where there is a likelihood of default.

Liquidity risk: The group aims to mitigate liquidity risk by managing cash generated by its operations.

Price risk: The group holds investments in the form of equity shares in publicly listed companies in the UK and certain other publicly tradeable investments. The group does not undertake active hedging of the market price risk associated with these investments, however the investments are all actively managed by investment management companies on behalf of the group.

General economic conditions: The group's performance is influenced by general economic conditions, consumer confidence and credit availability. Restrictions on the availability of retail credit could adversely impact the group. Consumer confidence in the UK remains fragile as a result of the wider economic conditions and therefore discretionary expenditure has been reduced by many customers. This may impact the number and type of vehicles that will be sold in the year.

Manufacturers: Many of our dealerships operate under franchise agreements with automotive manufacturers. We are dependent on the various manufacturers because, without a franchise agreement, we cannot operate a new vehicle franchise or perform manufacturer warranty services. Consequently, manufacturers exercise a degree of control over the operations of our franchised dealerships. Our franchise agreement may be terminated or not renewed by manufacturers for a variety of reasons. The success of the group also depends to a degree upon the reputation of the various manufacturers, particularly in relation to the marketing, design and build-quality of their products. A significant deterioration in the reputation of any of the major manufacturers may have an impact on the performance of the group.

On behalf of the board

E Hawthorne
Managing Director
28 March 2014

Directors' Report

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

The directors present their report for the year ended 31 December 2013.

Results and dividends

The profit on ordinary activities before taxation amounted to £85,170,000 (2012 - £60,505,000). The profit for the year, after taxation, amounted to £64,697,000 (2012 - £46,769,000).

An ordinary interim dividend of £1,449,000 was paid during the year (2012 - £2,098,000). The directors recommend that no final dividend be paid, which leaves a profit of £63,248,000 (2012 - £44,671,000) to be retained.

Market value of land and buildings

The group now has an extensive portfolio of properties throughout the UK. The directors are conscious that the group's properties represent an important and valuable asset and consider that the open market value of the group's land and buildings is in excess of £377m.

Employee involvement

Regular meetings are held between management and employees to allow a free flow of information and exchange of ideas.

Disabled employees

The group 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 group has continued to examine ways and means of providing continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate.

Directors' statement as to disclosure of information to the auditors

The directors who were members of the board at the time of approving the Directors' Report are listed on page 2. 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

E Hawthorne
Managing Director
28 March 2014

Statement of Directors' Responsibilities

in respect of the financial statements

Registered Number: 36386 (Scotland)

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). 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 group and the company and of the profit or loss of the group 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 group 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 group 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 Automobiles Limited

We have audited the financial statements of Arnold Clark Automobiles Limited for the year ended 31 December 2013, which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Parent Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 27. 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).

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 9, 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 group's and the parent 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 group's and the parent company's affairs as at 31 December 2013 and of the group's 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.

Independent Auditors' Report

to the members of Arnold Clark Automobiles Limited

Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

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

28 March 2014

Arnold Clark Automobiles Limited

Group Profit & Loss Account

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

	Notes	2013 £000	2012 £000
Turnover	2	2,918,887	2,484,080
Cost of sales		(2,473,014)	(2,094,370)
Gross profit		445,873	389,710
Administrative and distribution expenses		(354,729)	(322,841)
Other operating income		3,972	4,035
Operating profit	3	95,116	70,904
Analysed as:			
Operating profit before amortisation of goodwill		97,026	72,976
Amortisation of goodwill	9	(1,910)	(2,072)
Income from listed investments		93	93
Interest receivable	6	1,297	859
Interest payable	7	(11,336)	(11,351)
Profit on ordinary activities before taxation		85,170	60,505
Tax on profit on ordinary activities	8	(20,473)	(13,736)
Profit on ordinary activities after taxation	21	64,697	46,769

All operations were classed as continuing operations during the year.

Group Statement of Total Recognised Gains and Losses

	Notes	2013 £000	2012 £000
Profit on ordinary activities after taxation		64,697	46,769
Surplus on revaluation of investment properties	21	1,589	-
Total gains and losses recognised in the year		66,286	46,769

Arnold Clark Automobiles Limited

Group Balance Sheet

at 31 December 2013

Registered Number: 36386 (Scotland)

	Notes	2013 £000	2012 £000
Fixed assets			
Goodwill	9	5,281	6,301
Negative goodwill	9	(1,116)	(1,133)
		4,165	5,168
Tangible assets	10	833,028	759,891
Investments	11	69,484	84,621
		906,677	849,680
Current assets			
Stocks	12	356,810	331,410
Debtors	13	69,962	62,973
Investments	14	7,210	-
Cash at bank and in hand		111,564	58,858
		545,546	453,241
Creditors: amounts falling due within one year	15	(646,559)	(564,422)
Net current liabilities		(101,013)	(111,181)
Total assets less current liabilities		805,664	738,499
Creditors: amounts falling due after more than one year	16	(174,899)	(168,678)
Provisions for liabilities and charges	19	(33,363)	(37,256)
Net assets		597,402	532,565
Capital and reserves			
Called up share capital	20	999	999
Capital redemption reserve	21	1	1
Capital reserve	21	612	612
Revaluation reserve	21	1,589	-
Profit and loss account	21	594,201	530,953
Equity shareholders' funds	22	597,402	532,565

Approved by the board on 28 March 2014

E Hawthorne
Managing Director

K J McLean
Finance Director

Arnold Clark Automobiles Limited

Company Balance Sheet

at 31 December 2013

Registered Number: 36386 (Scotland)

	Notes	2013 £000	2012 £000
Fixed assets			
Goodwill	9	4,947	6,636
Tangible assets	10	368,101	315,106
Investments	11	63,691	76,314
		436,739	398,056
Current assets			
Stocks	12	309,591	295,876
Debtors	13	60,015	44,205
Investments	14	5,251	-
Cash at bank and in hand		58,737	28,824
		433,594	368,905
Creditors: amounts falling due within one year	15	(377,914)	(313,982)
Net current assets		55,680	54,923
Total assets less current liabilities		492,419	452,979
Creditors: amounts falling due after more than one year	16	-	(555)
Provisions for liabilities and charges	19	(12,396)	(12,102)
Net assets		480,023	440,322
Capital and reserves			
Called up share capital	20	999	999
Capital redemption reserve	21	1	1
Capital reserve	21	2,646	2,646
Revaluation reserve	21	1,589	-
Profit and loss account	21	474,788	436,676
Equity shareholders' funds		480,023	440,322

Approved by the board on 28 March 2014

E Hawthorne
Managing Director

K J McLean
Finance Director

Arnold Clark Automobiles Limited

Group Statement of Cash Flows

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

	Notes	2013 £000	2012 £000
Net cash inflow from operating activities	23(a)	245,718	195,921
Returns on investments and servicing of finance			
Interest received		1,297	859
Income from listed investments		93	93
Interest paid		(2,916)	(2,463)
Interest element of hire purchase contracts		(8,323)	(9,028)
		(9,849)	(10,539)
Taxation paid		(11,889)	(14,178)
Capital expenditure and financial investment			
Payments to acquire fixed assets		(521,328)	(376,754)
Net payments to acquire investments		(18,108)	(1,166)
Receipts from sales of fixed assets		314,702	183,508
Net receipt from disposal of investments		26,097	2,121
		(198,637)	(192,291)
Acquisitions and disposals			
Payments to acquire subsidiary undertakings		(120)	(17,705)
Net cash acquired with subsidiary undertakings		15	(510)
		(105)	(18,215)
Equity dividends paid		(1,449)	(2,098)
Net cash flow before financing		23,789	(41,400)
Financing			
Repayment of borrowings		(258,288)	(195,961)
Receipt from new loans		263,351	185,774
Repayment of capital element of hire purchase contracts		(312,076)	(306,189)
New hire purchase contracts		335,930	352,194
		28,917	35,818
Increase / (decrease) in cash		52,706	(5,582)

Arnold Clark Automobiles Limited

Group Statement of Cash Flows

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

	Notes	2013 £000	2012 £000
Reconciliation of net cash flow to movement in net debt			
Increase / (decrease) in cash		52,706	(5,582)
Repayment of borrowings		258,288	195,961
Receipts from new loans		(263,351)	(185,774)
Repayment of capital element of hire purchase contracts		312,076	306,189
Inception of new hire purchase contracts		(335,930)	(352,194)
Change in net debt resulting from cash flows		23,789	(41,400)
Other non-cash movements		-	(3,342)
Movement in net debt		23,789	(44,742)
Net debt at 1 January	23(b)	(319,347)	(274,605)
Net debt at 31 December	23(b)	(295,558)	(319,347)

Notes to the Financial Statements

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

1. Accounting policies

Basis of preparation
The financial statements are prepared under the historical cost convention, modified to include the revaluation of investment properties.

The financial statements are prepared in accordance with applicable accounting standards. The true and fair override provisions of the Companies Act 2006 have been invoked; see investment properties below.

Basis of consolidation
The group financial statements consolidate the financial statements of the company and subsidiary undertakings made up to a date co-terminous with the financial year of the company. References to "subsidiaries" are to be taken as references to subsidiary undertakings unless otherwise stated. The results of subsidiaries acquired during the year are consolidated from the date of acquisition using the acquisition method of accounting and the results of subsidiaries disposed of are consolidated up to the date of sale.

Certain of the group's activities are conducted through joint arrangements and are included in the consolidated financial statements in proportion to the group's interest in the income, expenses, assets and liabilities of these joint arrangements.

No parent company profit and loss account is published, in accordance with the exemption available under s.408 of the Companies Act 2006; the profit dealt with in the financial statements of the parent company is £39,561,000 (2012 - £52,024,000).

Going concern
The group's business activities, a review of the business and a description of the principal risks and uncertainties, together with the group's financial risk management processes and narrative regarding its exposure to key financial risks are outlined in the Strategic Report.

The group 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 group's net current liabilities position at the year end. The directors have reviewed the 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 group has 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.

Goodwill
Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Negative goodwill is included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale.

Notes to the Financial Statements

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

1. Accounting policies (continued)

Depreciation

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

Land and buildings	: Freehold	-	2%
	: Leasehold	-	over the lease term
Plant and equipment	: General	-	8.5% to 20%
	: Computer equipment	-	33%
Motor vehicles	: Own use	-	12.5% to 40%
	: Contract hire vehicles	-	straight line over the term of the hire contract

Investment properties

Certain of the group's properties are held for long term investment. Investment properties are accounted for in accordance with SSAP 19. Investment properties are revalued annually and the surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year.

Although the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 would normally require the systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the financial statements to give a true and fair view, since the current value of investment properties, and changes to the current value, are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which otherwise might have been included cannot be separately identified or quantified.

Stocks

Stocks 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.

The directors have considered the terms of the individual manufacturers' consignment stocking agreements with specific reference to those terms which have a significant bearing on the allocation of risks and rewards of ownership between the group and the manufacturer. These terms are the group's ability to return stock to the manufacturer without penalty, the manufacturer's ability to reallocate stocks to third parties and the point in time at which the consideration payable on adoption of the stock is determined. Where, based on this assessment, the directors consider that the substance of the manufacturers' consignment stocking agreements is such that the risks and reward of ownership are substantially transferred to the group, the stocks are recognised on the balance sheet and the corresponding liability to the manufacturer is included within creditors in accordance with Application Note A of FRS 5. In all other circumstances the consignment stocks and corresponding liability are not recognised on the balance sheet and are instead disclosed separately in a note to the financial statements.

1. **Accounting policies (continued)**

Leasing and hire purchase commitments

Assets held under hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under hire purchase contracts are included as liabilities in the balance sheet. The interest elements of the rental obligations are charged in the profit and loss account over the periods of the hire purchase contracts and represent a constant proportion of the balance of the capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Provisions for liabilities

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. The effect of the time value of money is not material and therefore the provisions are not discounted.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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.

Notes to the Financial Statements

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

2. Turnover and segmental analysis

Turnover represents the amounts due for goods sold, for services provided and for finance commissions and rentals earned stated net of discounts and value added tax.

Sales of goods are recognised when the goods are delivered, sales of services are recognised when the service has been provided and finance commissions are recognised on delivery of the related vehicles. Rentals receivable on vehicles held for use in operating leases are recognised on a straight line basis over the term of the lease.

The group operates in two principal areas of activity; that of distributing, retailing and servicing of motor vehicles and that of hiring motor vehicles. All activities take place within the United Kingdom.

An analysis of turnover, group profit before tax and net assets by business segment is given below:

	Distributing, retailing and servicing of motor vehicles		Hiring of motor vehicles		Other		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Turnover								
Continuing	2,726,804	2,297,891	169,783	167,965	22,248	18,224	2,918,835	2,484,080
Acquisitions	-	-	-	-	52	-	52	-
	2,726,804	2,297,891	169,783	167,965	22,300	18,224	2,918,887	2,484,080
Profit before taxation								
Continuing	62,181	38,270	12,025	11,398	10,985	10,837	85,191	60,505
Acquisitions	-	-	-	-	(21)	-	(21)	-
	62,181	38,270	12,025	11,398	10,964	10,837	85,170	60,505
Net assets								
Continuing	462,192	437,472	47,628	34,970	87,703	60,123	597,523	532,565
Acquisitions	-	-	-	-	(121)	-	(121)	-
	462,192	437,472	47,628	34,970	87,582	60,123	597,402	532,565

3. Operating profit

This is stated after charging/(crediting):		2013 £000	2012 £000
Auditors' remuneration	- audit services	177	175
Depreciation	- owned assets	21,116	20,965
	- assets held under hire purchase contracts	113,858	105,240
Amortisation of goodwill		1,910	2,072
Operating lease rentals	- land and buildings	3,492	3,260
Gain on sale of fixed assets		(2,736)	(2,488)

The auditors' remuneration includes £124,000 in respect of the audit of the company (2012 - £126,000).

Notes to the Financial Statements

for the year ended 31 December 2013

Registered Number: 36386 (Scotland)

4. Staff costs

	2013 £000	2012 £000
Wages and salaries	217,408	184,337
Social security costs	20,700	17,563
Pension costs	3,546	2,040
	241,654	203,940

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

	2013 No.	2012 No.
Office and management	1,653	1,568
Sales	2,581	2,243
Servicing	4,696	4,504
	8,930	8,315

5. Directors' emoluments

	2013 £000	2012 £000
Emoluments	6,513	5,905
Emoluments of the highest paid director	2,760	2,190

6. Interest receivable

	2013 £000	2012 £000
Bank interest receivable	750	859
Other interest receivable	547	-
	1,297	859

7. Interest payable and similar charges

	2013 £000	2012 £000
Finance charges payable under hire purchase contracts	8,420	8,888
Interest payable on stocking loans	2,910	2,416
Other interest payable	6	47
	11,336	11,351

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2013 £000	2012 £000
Current tax:		
UK corporation tax	22,590	8,895
Adjustments in respect of previous years	2,244	485
Total current tax (note 8(b))	24,834	9,380
Deferred tax:		
Origination and reversal of timing differences	(447)	6,861
Effect of decreased tax rate on opening liability	(4,341)	(2,235)
Adjustments in respect of previous years	427	(270)
Group deferred tax charge (note 8 (c))	(4,361)	4,356
Tax on profit on ordinary activities	20,473	13,736

(b) Factors affecting current tax charge

The tax assessed on profit on ordinary activities for the year is higher (2012: lower) than the standard rate of corporation tax in the UK of 23.25% (2012 - 24.5%). The differences are reconciled below:

	2013 £000	2012 £000
Profit on ordinary activities before tax	85,170	60,505
Profit on ordinary activities multiplied by standard rate of corporation tax to the group of 23.25% (2012 - 24.5%)	19,802	14,824
Expenses not deductible for tax purposes	1,677	1,388
Accelerated capital allowances	(230)	(7,318)
Other timing differences	1,341	4
Application of small company rates	-	(3)
Adjustments in respect of previous years	2,244	485
Total current tax (note 8(a))	24,834	9,380

8. Tax (continued)

(c) Deferred tax

Group

The deferred tax included in the balance sheet is as follows:	2013 £000	2012 £000
Included in provisions for liabilities and charges (note 19)	26,700	31,061
Accelerated capital allowances	29,881	32,822
Other timing differences	(3,181)	(1,761)
Provision for deferred tax	26,700	31,061

	£000
At 1 January 2013	31,061
Deferred tax charge in group profit and loss account (note 8(a))	(4,361)
At 31 December 2013	26,700

Company

The deferred tax included in the balance sheet is as follows:	2013 £000	2012 £000
Included in provisions for liabilities and charges (note 19)	5,737	5,926
Accelerated capital allowances	6,081	6,223
Other timing differences	(344)	(297)
Provision for deferred tax	5,737	5,926

	£000
At 1 January 2013	5,926
Deferred tax charge in profit and loss account	(189)
At 31 December 2013	5,737

(d) Factors that may affect future tax charges

The tax charge in future periods may be affected by the group's continued ability to shelter gains through rollover relief. No provision has been made for tax in respect of gains rolled over. Gains that have been previously rolled over may crystallise in the future, if it is not possible to reinvest in suitable qualifying replacement assets, and result in an increased tax liability. The total amount of the tax unprovided is £3,400,000 (2012 - £3,600,000). At present, it is not envisaged that any tax will become payable in the foreseeable future in this regard.

The UK Government has announced that it intends to reduce the rate of UK corporation tax to 20% by 1 April 2015. The rate of corporation tax reduced to 24% from 1 April 2012 and to 23% from 1 April 2013. A reduction to 21%, effective on 1 April 2014, and a further reduction to 20%, effective from 1 April 2015, were included in the Finance Bill that was substantively enacted on 2 July 2012. The deferred tax balances as at 31 December 2013 have been restated at a rate of 20%. The reduction to 20% had the effect of reducing the deferred tax balance by £4,341,000 in the group accounts and by £806,000 in the company accounts.

9. Goodwill

Group

	Goodwill £000	Negative goodwill £000	Total £000
Cost:			
At 1 January 2013	18,379	(1,351)	17,028
Additions	907	-	907
At 31 December 2013	19,286	(1,351)	17,935
Amortisation:			
At 1 January 2013	12,078	(218)	11,860
Provided during the year	1,927	(17)	1,910
At 31 December 2013	14,005	(235)	13,770
Net book value:			
At 31 December 2013	5,281	(1,116)	4,165
At 31 December 2012	6,301	(1,133)	5,168

Company

	Goodwill £000
Cost:	
At 1 January 2013	13,976
Additions	687
At 31 December 2013	14,663
Amortisation:	
At 1 January 2013	7,340
Provided during the year	2,376
At 31 December 2013	9,716
Net book value:	
At 31 December 2013	4,947
At 31 December 2012	6,636

Goodwill arising on the acquisition of subsidiary companies and unincorporated businesses is amortised evenly over the directors' estimate of their useful economic lives, which is currently considered to be 5 years.

Negative goodwill arising on the acquisition of the share capital of Glasgow Training Group (Motor Trade) Limited is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale.

9. Goodwill (continued)

True and fair override on divisionalisation of subsidiaries

In order to rationalise the group structure following the acquisitions of certain subsidiaries, the trade and net assets of those subsidiary undertakings were transferred to the company at their book value as at the date of transfer. The cost of the company's investment in the subsidiary reflected the underlying fair value of its net assets and goodwill at the time of its acquisition. As a result of this transfer, the value of the company's investment in that subsidiary undertaking fell below the amount at which it was stated in the company's accounting records. The directors consider that, as there had been no overall loss to the group, it would fail to give a true and fair view to charge the diminution to the company's profit and loss account and it should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill. The effect on the company's balance sheet of this departure is to recognise goodwill of £12,159,000 (2012 - £12,159,000). Amortisation of £1,698,000 has been charged in respect of this goodwill during the year (2012 - £1,561,000) and the accumulated amortisation is £7,763,000 (2012 - £6,065,000).

The company paid £687,000 for goodwill during the acquisition of the trade and assets of an unincorporated business during the year.

10. Tangible fixed assets

Group

Cost or valuation:	Investment properties £000	Land and buildings £000	Plant and equipment £000	Motor vehicles £000	Total £000
At 1 January 2013	21,338	319,994	60,869	630,422	1,032,623
Additions	19,178	41,569	7,729	452,165	520,641
Disposals	-	(597)	(1,246)	(425,509)	(427,352)
Deficit on revaluation	(566)	-	-	-	(566)
Acquisition of subsidiary undertakings	-	-	2	-	2
At 31 December 2013	39,950	360,966	67,354	657,078	1,125,348
Depreciation:					
At 1 January 2013	-	43,645	46,160	182,927	272,732
Provided during the year	-	6,330	5,956	122,688	134,974
Disposals	-	(219)	(1,128)	(114,039)	(115,386)
At 31 December 2013	-	49,756	50,988	191,576	292,320
Net book value:					
At 31 December 2013	39,950	311,210	16,366	465,502	833,028
At 31 December 2012	21,338	276,349	14,709	447,495	759,891

The group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £611,190,000 (2012 - £585,733,000) and related accumulated depreciation of £181,678,000 (2012 - £172,867,000), which are held for use in operating leases.

10. Tangible fixed assets (continued)

Company

Cost or valuation:	Investment properties £000	Land and buildings £000	Plant and equipment £000	Motor vehicles £000	Total £000
At 1 January 2013	21,338	290,648	53,307	39,927	405,220
Additions	19,178	36,373	6,809	32,287	94,647
Disposals	-	(594)	(1,455)	(31,750)	(33,799)
Revaluation	(566)	-	-	-	(566)
Transfer from subsidiary undertakings	-	2,100	-	-	2,100
At 31 December 2013	39,950	328,527	58,661	40,464	467,602
Depreciation:					
At 1 January 2013	-	40,383	40,434	9,297	90,114
Provided during the year	-	5,859	5,260	8,034	19,153
Disposals	-	(219)	(1,342)	(8,205)	(9,766)
At 31 December 2013	-	46,023	44,352	9,126	99,501
Net book value:					
At 31 December 2013	39,950	282,504	14,309	31,338	368,101
At 31 December 2012	21,338	250,265	12,873	30,630	315,106

The net book value of land and buildings comprises:

		Group		**Company**
	2013 £000	2012 £000	2013 £000	2012 £000
Freehold	289,035	256,026	260,804	230,433
Long leasehold	22,175	20,323	21,700	19,832
	311,210	276,349	282,504	250,265

The investment properties were revalued by Colliers International as at 31 December 2013, on the basis of open market value in accordance with the RICS Valuation - Professional Standards (incorporating the International Valuation Standards) January 2014 prepared by The Royal Institute of Chartered Surveyors.

The historical cost of the investment properties included at valuation in both the group and the company accounts at 31 December 2013 was £40,516,000 (2012 - £21,338,000).

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for the year ended 31 December 2013

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11. Investments

Group

Cost:	Listed investments £000	Other investments £000	Total £000
At 1 January 2013	1,926	82,757	84,683
Additions	187	10,711	10,898
Disposals	(167)	(25,930)	(26,097)
At 31 December 2013	1,946	67,538	69,484
Amounts provided:			
At 1 January 2013	62	-	62
Reversal of previous write down	(62)	-	(62)
At 31 December 2013	-	-	-
Net book value:			
At 31 December 2013	1,946	67,538	69,484
At 31 December 2012	1,864	82,757	84,621

The market value of the listed investments at 31 December 2013 was £2,404,000 (2012 - £2,306,000).

Other investments are bank certificates of deposit and clearer certificates of deposit of varying maturity.

Company	Listed investments £000	Other investments £000	Subsidiaries £000	Total £000
At 1 January 2013	-	16,029	60,285	76,314
Additions	-	90	120	210
Disposals	-	(14,359)	-	(14,359)
Transfer from subsidiary undertakings	1,526	-	-	1,526
At 31 December 2013	1,526	1,760	60,405	63,691

Other investments are bank certificates of deposit and clearer certificates of deposit of varying maturity.

Included in other investments is £1,750,000 (2012 - £1,660,000) held by Harlequin Insurance PCC Limited, a joint arrangement that is not an entity.

11. Investments (continued)

The table below gives details of the group's principal operating subsidiaries. The group also includes a large number of non-trading companies and it is not practical to include all of them in this list. The list, therefore, only includes those companies that have a significant impact on the revenue, profit or assets of the group; a full list of subsidiaries is filed with the parent company's annual return. No subsidiary undertaking is excluded from the group consolidation.

Name of company	Country of registration	Holding	Proportion held	Nature of business
Principal subsidiaries:				
Arnold Clark Autocare Limited	Guernsey	Ordinary shares	100%	Investment holding company
Arnold Clark Finance Limited	Scotland	Ordinary shares	100%	Hiring of motor vehicles
Arnold Clark Holdings (Malta) Limited	Malta	Ordinary shares	100%	Insurance services
Arnold Clark Insurance Services Limited	Scotland	Ordinary shares	100%	Insurance services
GTG Training Limited	Scotland	Ordinary shares	100%	Provision of education and training
Harry Fairbairn Limited	Scotland	Ordinary shares	100%	Sale and servicing of motor vehicles
Towquest Limited	England	Ordinary shares	100%	Provision of specialist computer software

On 3 September 2013, the company acquired the entire share capital of Towquest Limited.

The investment in Towquest Limited is included in the company's balance sheet at cost.

Net assets and fair values to group at date of aquisition:	£000
Tangible fixed assets	2
Stocks	39
Debtors	12
Cash at bank	15
Creditors: amount due within one year	(168)
Net assets	(100)
Goodwill arising on acquisition	220
	120
Discharged by:	
Cash	100
Cost associated with the acquisition	20
	120

Towquest Limited contributed £75,000 to the group's net operating cashflows and paid £1,000 for capital expenditure.

11. Investments (continued)

Towquest Limited generated a loss after tax of £105,000 in the year ended 31 December 2013 (2012 - £9,000 loss) of which £84,000 arose in the period from 1 January 2013 to 3 September 2013. The summarised profit and loss account for the period to the date of acquisition is as follows:

	£000
Turnover	249
Operating loss	(83)
Net interest	(1)
Loss before tax	(84)
Taxation	-
Loss for the period 1 January 2013 to 3 September 2013	(84)

12. Stocks

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Motor vehicles	269,549	250,582	227,140	221,078
Parts and accessories	14,040	14,244	13,644	13,851
Other	3,687	3,297	3,605	3,169
Consignment stocks	63,694	62,579	59,362	57,070
Buy back vehicles	5,840	708	5,840	708
	356,810	331,410	309,591	295,876

Group

At 31 December 2013 the group held vehicles on sale or return with a wholesale value of £144,017,000 (2012 - £128,174,000) excluding Value Added Tax.

Included in stocks is £63,694,000 (2012 - £62,579,000) in respect of vehicles where the risk and rewards of ownership are considered to lie with the group. The corresponding liability is included within creditors (note 15).

The directors are satisfied that the remaining vehicles totalling £80,323,000 (2012 - £65,595,000) are assets of the manufacturers. In relation to these stocks, the group primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

Company

At 31 December 2013 the company held vehicles on sale or return with a wholesale value of £139,685,000 (2012 - £122,665,000) excluding Value Added Tax.

Included in stocks is £59,362,000 (2012 - £57,070,000) in respect of vehicles where the risk and rewards of ownership are considered to lie with the company. The corresponding liability is included within creditors (note 15).

The directors are satisfied that the remaining vehicles totalling £80,323,000 (2012 - £65,595,000) are assets of the manufacturers. In relation to these stocks, the company primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

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13. Debtors

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade debtors	40,017	35,710	23,196	19,124
Other debtors	6,954	2,799	6,227	2,178
VAT recoverable	-	2,404	-	5,241
Prepayments and accrued income	22,991	22,060	18,987	17,662
Amounts due from group undertakings	-	-	11,605	-
	69,962	62,973	60,015	44,205

14. Investments

	Group £000
Cost and net book value:	
At 1 January 2013	-
Additions	7,210
At 31 December 2013	7,210

The investments are bank certificates of deposit and clearer certificates of deposit of varying maturity and are readily convertible to cash.

	Company £000
Cost and net book value:	
At 1 January 2013	-
Additions	5,251
At 31 December 2013	5,251

The investments are bank certificates of deposit and clearer certificates of deposit of varying maturity and are readily convertible to cash.

15. Creditors: amounts falling due within one year

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Other loans repayable on demand (note 17)	23,787	18,724	23,787	18,724
Obligations under hire purchase contracts (note 18)	213,715	197,122	-	-
Trade creditors	121,344	141,989	93,142	94,684
Current corporation tax	22,246	9,301	12,866	3,955
Other taxes and social security costs	12,633	6,439	10,620	6,065
Other creditors	28,020	29,038	13,178	10,675
Accruals and deferred income	155,280	99,077	90,849	69,063
Consignment stock creditor	63,694	62,579	59,362	57,070
Buy back vehicle creditor	5,840	153	5,840	153
Amounts due to group undertakings	-	-	68,270	53,593
	646,559	564,422	377,914	313,982

Notes to the Financial Statements

for the year ended 31 December 2013

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16. Creditors: amounts falling due after more than one year

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Obligations under hire purchase contracts (note 18)	169,620	162,359	-	-
Buy back vehicle creditor	-	555	-	555
Rentals in advance	5,279	5,764	-	-
	174,899	168,678	-	555

17. Loans

	Group		Company	
Amounts falling due:	2013 £000	2012 £000	2013 £000	2012 £000
In one year or less or on demand	23,787	18,724	23,787	18,724

The loan represents a stocking facility with Lombard North Central plc, is secured on the vehicles funded and is repayable on demand.

18. Obligations under leases and hire purchase contracts

Amounts due under hire purchase contracts:

Group	2013 £000	2012 £000
Amounts payable:		
Within one year (note 15)	213,715	197,122
In two to five years (note 16)	169,620	162,359
	383,335	359,481

The hire purchase contracts are secured on the vehicles funded.

Annual commitments under non-cancellable operating leases, all of which relate to property, are as follows:

	Group		Company	
Operating leases which expire:	2013 £000	2012 £000	2013 £000	2012 £000
Within one year	111	131	110	95
In two to five years	888	612	821	563
In over five years	2,368	2,566	2,136	2,213
	3,367	3,309	3,067	2,871

19. Provisions for liabilities and charges

Group	Commission clawback £000	Deferred taxation £000	Total £000
At 1 January 2013	6,195	31,061	37,256
Charged in the year	3,593	-	3,593
Utilised in the year	(3,125)	(4,361)	(7,486)
At 31 December 2013	6,663	26,700	33,363

19. Provisions for liabilities and charges (continued)

Company	Commission clawback £000	Deferred taxation £000	Total £000
At 1 January 2013	6,176	5,926	12,102
Charged in the year	3,593	-	3,593
Utilised in the year	(3,110)	(189)	(3,299)
At 31 December 2013	6,659	5,737	12,396

The company acts as a licensed credit broker and earns commission from a variety of finance companies. Under certain circumstances, where, for example, a finance agreement is terminated early due to legal action for non-payment, the commission, or an element of it, is repayable to the finance company. The commission clawback provision reflects the expected liability at the balance sheet date and is anticipated to crystallise over a period of up to five years in line with the terms of the associated finance arrangements.

Details of the deferred taxation provided in the accounts are included in note 8(c).

20. Share capital

	Authorised		Allotted, called up and fully paid	
	2013 No.	2012 No.	2013 £000	2012 £000
	1,000,000	1,000,000	999	999

21. Reserves

Group	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Profit and loss account £000
At 1 January 2013	1	612	-	530,953
Profit for the year	-	-	-	64,697
Revaluation of investment properties	-	-	1,589	-
Dividends	-	-	-	(1,449)
At 31 December 2013	1	612	1,589	594,201

Company	Capital redemption reserve £000	Capital reserve £000	Revaluation reserve £000	Profit and loss account £000
At 1 January 2013	1	2,646	-	436,676
Profit for the year	-	-	-	39,561
Revaluation of investment properties	-	-	1,589	-
Dividends	-	-	-	(1,449)
At 31 December 2013	1	2,646	1,589	474,788

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22. Movement in shareholders' funds

Group

	2013 £000	2012 £000
Shareholders' funds at 1 January	532,565	487,894
Profit for the year	64,697	46,769
Revaluation of investment properties	1,589	-
Dividends	(1,449)	(2,098)
Shareholders' funds at 31 December	597,402	532,565

23. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2013 £000	2012 £000
Operating profit	95,116	70,904
Depreciation of tangible fixed assets	134,974	126,205
Revaluation of investment properties	2,155	-
Reversal of write down of investments	(62)	-
Net amortisation of goodwill	1,910	2,072
Gain on disposal of fixed assets	(2,736)	(2,488)
Decrease/(increase) in stocks	(25,361)	(37,633)
Decrease/(increase) in debtors	(6,977)	1,390
Increase/(decrease) in creditors	46,231	34,887
Increase/(decrease) in provisions	468	584
Net cash inflow from operating activities	245,718	195,921

(b) Analysis of net debt

	At 1 January 2013 £000	Cash flows £000	At 31 December 2013 £000
Cash at bank and in hand	58,858	52,706	111,564
Hire purchase contracts	(359,481)	(23,854)	(383,335)
Loans	(18,724)	(5,063)	(23,787)
	(319,347)	23,789	(295,558)

24. Capital commitments

At the year end, the group and company had capital commitments as follows:

	Group		Company	
	2013 £000	2012 £000	2013 £000	2012 £000
Contracted but not provided for	2,549	7,078	2,029	5,463
Authorised but not contracted	3,404	11,221	2,224	11,186
	5,953	18,299	4,253	16,649

25. Other financial commitments

In addition to buy back vehicles referred to in notes 12, 15 and 16, the company has undertaken to repurchase certain motor vehicles throughout 2014. As the company will be repurchasing these vehicles at trade values at the date of purchase, the directors consider that losses arising from disposal of the vehicles for less than the repurchase value will not occur and, accordingly, no provision for such losses is made in the financial statements.

26. Contingent assets/liabilities

Company

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 2013, the Value Added Tax payable by other members of the group registration amounted to £2,715,000 (2012 - £2,610,000).

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 2013, the other companies included in the guarantee had net funds of £52,048,000 (2012 - £26,980,000) due from The Royal Bank of Scotland plc.

27. Ultimate controlling party

The directors consider that Sir Arnold Clark is the company's ultimate controlling party by virtue of his office and by virtue of the shareholdings of his immediate family.

The company has taken advantage of the exemption in FRS 8 from disclosing transactions with related parties that are wholly owned subsidiaries.