ARNOLD CLARK AUTOMOBILES LIMITED
ANNUAL REPORT 2016

SC36386

Directors, principal officers and advisers

Arnold Clark Automobiles Limited

Directors

E Hawthorne BA CA	Chief Executive and Group Managing Director
K J McLean BAcc (Hons) CA	Group Finance Director
S Willis	Group Sales Director
Lady Clark MA (Glasgow)	Director
J A Clark BA MSc MIMI	Group Franchise Director
R E Borrie	Group Franchise Director
D M Cooper BAcc (Hons) FCCA	Group Retail Finance & Leasing Director
W G P Gall FIMI	Director

Operations Board

A H W Clark BSc (Hons)	Group Fleet & Business Development Director
J Graham BSc (Hons) CA Dip CII	Group Risk and Products Director
C S Henry BA (Hons) FCIPD	Group Human Resources Director
S J MacAulay MIMI	Group Aftersales Director

Company Secretary

Stuart Thorpe BA (Hons) FCA

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

Chief Executive's Statement

Arnold Clark Automobiles Limited

It was with great sadness that we announced the passing of our founder and Chairman, Sir Arnold Clark, on 10 April 2017, aged 89. Sir Arnold was a truly inspirational business leader, entrepreneur and influential public figure. His unsurpassed work ethic, strong family values and charismatic leadership shaped the lives of many who came into contact with him both within his business and beyond, and resulted in him building a market-leading automotive retailer with its heart in the community that it serves. Since opening his first branch in 1954, the group has grown to operate from 170 retail outlets, representing 24 vehicle manufacturers and employing over 11,000 staff. This growth was achieved by sheer hard work, continual re-investment and ensuring that customer service is at the forefront of all aspects of the business.

Sir Arnold passionately believed in investment in people through training. Along with several other Glasgow motor dealers, he was a founding member of Glasgow Training Group (now called GTG Training Limited) in the 1970s. Sir Arnold was instrumental in pioneering modern automotive apprenticeships. His passion for training flourished when Arnold Clark Automobiles Limited acquired the remaining share capital of Glasgow Training Group in June 2003 and subsequently transformed the training company with a £30 million investment, building three industry leading training centres in Glasgow, Edinburgh and Wolverhampton. These centres provide all aspects of training in transport & logistics, health & safety, IT and business skills in addition to the core business of automotive technical. During 2016, the centres trained over 2,000 students from within Arnold Clark Automobiles Limited and from external clients. Today the Arnold Clark group employs 800 apprentices and this number will be bolstered by a further 270 apprentices joining our group during 2017, underlining Sir Arnold's philosophy of investing in people for future generations. Following the introduction of the apprenticeship levy, GTG Training Limited applied for and was granted admission to the "Register of Apprenticeship Training Providers" in England at our Wolverhampton training centre; an accolade which Sir Arnold was extremely proud of.

Whilst Sir Arnold believed that one part of the equation for a successful business is investment in people, the other aspects are ensuring that we provide value for money in our products, provide excellent customer service and invest in the communities in which we operate. In those pursuits Sir Arnold was relentless and received the ultimate accolade from Her Majesty Queen Elizabeth in 2004 when he was knighted for services to the motor trade and for his considerable charity work. Today, those principles remain at the core of the business and our directors and staff are determined to ensure that they uphold Sir Arnold's ethos of providing value for money and customer satisfaction.

Year in review

I am pleased to report that the group has sustained a strong year of growth despite the uncertainty caused in the UK by the vote to leave the European Union. Turnover increased by 9.2% to a record £3.66bn and operating profit rose by £14.1m to £135.8m. Used car sales increased considerably by 12.7% to 197,842 units while new car sales decreased by 4.3% to 80,203 units.

Arnold Clark Finance Limited, our vehicle management and daily rental business, once again made a significant contribution to group profits in what was a difficult trading year for the contract hire industry. The subsidiary company reported a small decrease in turnover of 2.1% to £547.3m. Profit before tax also decreased from £15.5m in 2015 to £12.5m in the current year.

Acquisition and investment

The group continued to make strategic investments in acquiring new sites and upgrading existing branches with a focus on maximising both market penetration in key strategic locations and performance in existing established areas.

The group expanded its Volkswagen offering in July when it acquired the trade and assets of two dealerships in Stirling and Bathgate, East Lothian. Since acquisition, the group has invested heavily in upgrading the branches to the standards required by Volkswagen and Arnold Clark.

To support our expansion in England, an eight acre storage and distribution compound was purchased at Kidsgrove, Staffordshire in August 2016. Our Motorstore brand is a significant part of our portfolio and in October, our 22nd Motorstore was opened in Nottingham. The city is a new territory for Arnold Clark and we look forward to developing the Arnold Clark and Motorstore brands through engagement with the local community. The seven acre site has 400 nearly new and used cars on site, full ancillary garage facilities and car and van rental. In December, a four acre site was acquired in Wakefield, Yorkshire. Planning permission has now been granted and the site will be developed as a further Motorstore during the latter half of 2017. Our investment property portfolio also increased during the year with the purchase of a tenanted motor dealership in Oldbury, West Midlands in December.

After the balance sheet date, the group continued the expansion of our Motorstore brand with the opening of York Motorstore in February; another new territory for the group. The branch has over 250 nearly new and used cars on site and also offers all garage facilities including car and van rental.

Chief Executive's Statement

Arnold Clark Automobiles Limited

Refurbishment and development

To ensure an exceptional customer experience, the redevelopment and renovation of our existing facilities continued throughout the year. Alexandra Parade Hyundai, overlooking the M8 motorway in Glasgow, opened in July after a complete rebuild of the dealership. The 857 square metre, three-storey flagship dealership is the UK's largest Hyundai facility.

In April, our head office function moved from three ageing facilities in Glasgow to our new bespoke facility at Hillington, near Glasgow Airport, which now accommodates over 600 members of staff. The synergies created by having all head office staff in one location are already proving to be a substantial benefit. This facility also houses the UK's largest Renault/Dacia dealership.

As previously reported in 2015, our service centre on Girdleness Road, Aberdeen was destroyed by fire. An all new dealership was completed and opened in 2016 comprising a 30 bay workshop, MOT viewing area and incorporating Ford commercial sales and service.

Other notable projects during the year included the conversion and refurbishment of our Pollokshaws Road, Glasgow site for Volkswagen, the conversion of our Kilmarnock Road, Glasgow site for Mini and a refit of our East Kilbride Vauxhall branch. The coachbuilding division at East Kilbride had outgrown the existing premises in Hawbank Road and moved to a new 45,000 square feet facility on the Queensway in October. After the balance sheet date, the group enhanced its Kia offering in Aberdeen by moving the franchise into its own premises at Hillview Road.

Awards and recognition

In May, our marketing team received the 'In-house Marketing Team of the Year' award at the Drum Marketing Awards ceremony. This award underpins the quality and creativity of the work our marketing team produces which enables us to differentiate our brand in the market place.

In June, we were delighted to be recognised at the Autotrader Click Awards ceremony at the Banking Hall in London. Arnold Clark Automobiles Limited was presented with the 'Best Integrated Marketing Approach - Franchise and Supermarkets' award and the coveted 'Data Driven Retailer of the Year' award. These awards are testament to the innovation of our digital marketing specialists who work tirelessly to strengthen our online presence and maintain our position at the forefront of modern vehicle retailing. We relaunched our industry renowned website ArnoldClark.com in November 2015 and have continued to benefit from the increase in both mobile page views and new visitors to the site.

Finally, I am pleased to report our Volkswagen Wishaw branch was recognised as the UK's best Volkswagen retailer at the franchise's One Business Awards ceremony in February 2017. It is especially pleasing to win this UK wide award as it recognises our commitment to staff training and customer satisfaction

Future prospects

In 2017, we expect market conditions to be challenging for the UK motor industry as the "Brexit" negotiations are ongoing and now with a General Election imminent. We anticipate that the new car market will remain relatively flat with modest underlying growth in the used car market. By focusing on our core values of delivering exceptional value for money and creating the highest possible levels of customer satisfaction, we have continued to grow and early trading results have been encouraging. We continue to ensure that the group remains well funded in order to meet any challenges ahead and to be able to take advantage of opportunities which present themselves.

Investment in attracting, training and retaining the highest calibre staff continues to be a cornerstone of our strategy for success. Our achievements to date would not be possible without the commitment of our loyal and motivated workforce. On behalf of the Board, I would like to extend my sincere gratitude to all of our employees who have followed Sir Arnold's lead and helped to ensure the continued success of Arnold Clark Automobiles Limited.

Sir Arnold's entrepreneurial ideals are ingrained in our business. His philosophy continues to inspire everyone who works in the business and will be the cornerstone of its future growth and continuing success. His guidance and wisdom will be sorely missed by all of the Directors and staff and, to mark his passing, the Directors and staff wish to make 2017 our most successful year ever in retail car sales.

E Hawthorne
Chief Executive

21 APRIL 2017

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

Review of the business

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

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

	2016	2015	Change
Group turnover	£3,662m	£3,354m	9.2%
New car sales (units)	80,203	83,813	(4.3)%
Used car sales (units)	197,842	175,526	12.7%
Group operating profit	£135.8m	£121.7m	11.6%

Used car sales units increased by 12.7% due to the opening of new branches and like for like sales increasing by 8.4%. This increase in used units, combined with strong residual values and continued low interest rates, were the main drivers of the increase in operating profits.

New car sales units fell by 4.3% on the prior year. New retail units sold in the wider UK market only increased by 2.3% in 2016, and it is expected that the new car market in 2017 will continue to be challenging.

Turnover rose by 9.2% to a record £3,662m and Group operating profit increased to £135.8m primarily as a result of the increase in used car sales. Early trading results in 2017 have been very encouraging and the Board predicts that both turnover and profitability will continue to increase.

A further review of the business is provided in the Chief Executive's Statement on pages 2 to 3.

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.

Principal risks and uncertainties (continued)

General economic conditions: The Group's performance is influenced by general economic conditions overall, and in particular by economic conditions in the markets in which we operate. These economic conditions include: levels of new and used vehicle sales, availability of consumer credit, changes in consumer demand, consumer confidence levels, fuel prices, personal discretionary spending levels, interest rates, and unemployment rates. Significant changes in any of these factors may impact the number and type of vehicles that will be sold in the year and therefore the revenue generated by the Group and its profitability.

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.

Regulatory issues: The Group's business activities require a number of regulatory authorisations or registrations from various public bodies, including, amongst others, the Financial Conduct Authority, the Driver and Vehicle Standards Agency and the Driver and Vehicle Licensing Agency. Withdrawal of any of these authorisations or registrations may have a significant impact on Group's ability to trade and on its financial performance. The Group has a range of established systems, processes and controls in place to ensure regulated activities are carried out in accordance with the relevant regulatory frameworks.

Information systems: The Group is dependent upon a number of business critical systems which, if interrupted for any length of time, could have a material effect on the efficient running of the Group's businesses. The Group has a disaster recovery plan in place to reduce the time taken to restore systems and to minimise the impact on the financial performance of the business.

On behalf of the Board

E Hawthorne
Chief Executive

21 APRIL 2017

Directors' report

Arnold Clark Automobiles Limited

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

Results and dividends

The profit on ordinary activities before taxation amounted to £125,350,000 (2015 - £110,387,000). The profit for the year, after taxation, amounted to £101,911,000 (2015 - £87,378,000).

An ordinary interim dividend of £2,498,000 was paid during the year (2015 - £3,747,000). The Directors recommend that no final dividend be paid, which leaves a profit of £99,413,000 (2015 - £83,631,000) to be retained. The 2017 interim dividend of £3,497,000 has been declared prior to the signing of these accounts.

A further review of the business and its principal risks is provided in the Chief Executive's Statement on pages 2 to 3 and in the Strategic Report on pages 4 and 5.

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 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

The Directors who served during the year were as follows:

Sir Arnold Clark
E Hawthorne
K J McLean
S Willis
Lady Clark
J A Clark
R E Borrie
D M Cooper
W G P Gall

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' report

Arnold Clark Automobiles Limited

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 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.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditors

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

E Hawthorne
Chief Executive
21 APRIL 2017

Statement of directors' responsibilities

Arnold Clark Automobiles Limited

The Directors are responsible for preparing the financial statements in accordance with applicable laws and International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The Directors are responsible for preparing financial statements for each financial period that give a true and fair view, in accordance with IFRSs, of the state of affairs of the Company and the Group and of the profit or loss 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 the Company and Group financial statements comply with FRS 101 and IFRSs respectively, 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 disclose with reasonable accuracy at any time the financial position of the Company and 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 2016, which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Financial Position, the Company Statement of Changes in Equity and the related notes 1 to 32 and A1 to A23. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework."

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, 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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements 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 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 the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

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

- adequate accounting records have not been kept 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

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

21 April 2017

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2016

Arnold Clark Automobiles Limited

	Notes	2016 £000	2015 £000
Revenue	9	3,662,455	3,353,519
Cost of sales		(3,066,740)	(2,819,799)
Gross profit		595,715	533,720
Distribution expenses		(274,554)	(252,414)
Administrative expenses		(189,517)	(162,797)
Other operating income	10	4,173	3,215
Operating profit		135,817	121,724
Finance costs	11	(12,436)	(12,638)
Finance income	12	1,969	1,301
Profit before tax from continuing operations		125,350	110,387
Income tax expense	17	(23,439)	(23,009)
Profit for the year		101,911	87,378
Other comprehensive income		-	-
Total comprehensive income for the year		101,911	87,378

All operations were classed as continuing operations during the year.

Consolidated statement of financial position
at 31 December 2016

Arnold Clark Automobiles Limited

	Notes	2016 £000	2015 £000
Assets			
Non-current assets			
Property, plant and equipment	18	970,196	925,728
Investment properties	19	55,534	49,006
Intangible assets	20	10,285	10,004
Investments		10	10
Deferred tax assets	17	1,630	2,440
		1,037,655	987,188
Current assets			
Inventories	21	474,033	418,966
Trade and other receivables	22	113,044	119,988
Financial assets	23	109,615	89,799
Cash and cash equivalents	24	127,453	122,027
		824,145	750,780
Total assets		1,861,800	1,737,968
Equity and liabilities			
Issued share capital	25	999	999
Other capital reserves		1	1
Profit and loss account		854,857	755,444
Total equity		855,857	756,444
Non-current liabilities			
Interest-bearing loans and borrowings	28	178,668	186,220
Provisions	27	3,746	3,576
Trade and other payables	29	6,283	6,515
Deferred tax liabilities	17	23,163	26,823
		211,860	223,134
Current liabilities			
Interest-bearing loans and borrowings	28	283,239	268,493
Trade and other payables	29	480,603	458,991
Income taxes payable		27,248	27,870
Provisions	27	2,993	3,036
		794,083	758,390
Total liabilities		1,005,943	981,524
Total equity and liabilities		1,861,800	1,737,968

Approved by the Board on 21 APRIL 2017

E Hawthorne
Chief Executive

K J McLean
Finance Director

Consolidated statement of changes in equity

for the year ended 31 December 2016

Arnold Clark Automobiles Limited

	Share Capital	Other capital reserves	Profit and loss account	Total
As at 1 January 2015	999	1	671,813	672,813
Total comprehensive income	-	-	87,378	87,378
Dividends to shareholders	-	-	(3,747)	(3,747)
As at 31 December 2015	999	1	755,444	756,444
As at 1 January 2016	999	1	755,444	756,444
Total comprehensive income	-	-	101,911	101,911
Dividends to shareholders	-	-	(2,498)	(2,498)
As at 31 December 2016	999	1	854,857	855,857

Consolidated statement of cash flows

for the year ended 31 December 2016

Arnold Clark Automobiles Limited

	Notes	2016 £000	2015 £000
Net cash inflow from operating activities	31	83,837	70,827
Investing activities			
Proceeds from sale of property, plant and equipment		1,413	6,440
Purchase of property, plant and equipment		(57,613)	(57,074)
Purchase of investment properties		(6,528)	-
Acquisition of subsidiaries, net of cash acquired		(1,596)	(11,339)
Proceeds from sale of investments		628	19,272
Purchase of investments		(19,896)	(20,206)
Income from investments		485	644
Net cash flows used in investing activities		(83,107)	(62,263)
Financing activities			
Proceeds from borrowings		303,750	275,188
Repayment of borrowings		(283,841)	(279,368)
Proceeds from new hire purchase contracts		386,841	435,391
Repayment of capital element of hire purchase contracts		(399,556)	(420,303)
Dividends paid to equity holders of the parent		(2,498)	(3,747)
Net cash flows from financing activities		4,696	7,161
Net increase in cash and cash equivalents		5,426	15,725
Cash and cash equivalents at 1 January		122,027	106,302
Cash and cash equivalents at 31 December	24	127,453	122,027

1. Corporate information

Arnold Clark Automobiles 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 Group's operations and its principal activities are set out in the Strategic Report.

2. Accounting policies

2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ("IFRS").

The consolidated financial statements have been prepared on a historical cost basis, except for financial assets, which have been measured at fair value. The consolidated financial statements are presented in Sterling and all values are rounded to the nearest thousand (£000), except where otherwise indicated.

2.2 Standards issued but not yet effective

Standards and amendments to standards that have been issued but are not effective for 2016 and have not been early adopted are:

- Amendment to IAS 7: Disclosure Initiative - effective date 1 January 2017
- Amendment to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses - effective date 1 January 2017
- IFRS 9 Financial Instruments - effective date 1 January 2018
- IFRS 15 Revenue from Contracts with Customers - effective date 1 January 2018
- IFRS 16 Leases - effective date 1 January 2019
- Improvements to IFRS 2014-2016 cycle - effective date 1 January 2017

The above standards and amendments will be adopted in accordance with their effective dates and have not been adopted in these financial statements. Management are currently assessing the impact of the pronouncements listed above. The review thus far has indicated that the standards and amendments to standards listed above will not have a significant impact on the results of operations and financial position in the period of initial application.

2.3 Basis of consolidation

The Group financial statements consolidate the financial statements of Arnold Clark Automobiles Limited and all of its subsidiary undertakings made up to a date co-terminous with the financial year of the Company.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.4 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. 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.

2.5 Summary of significant accounting policies

Business combinations and goodwill

All business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the Group will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss. If, at the balance sheet date, the fair value of the net identifiable assets acquired and liabilities assumed can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. An impairment test is performed annually.

2.5 Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any. Historic cost is the invoice price of the item less any discounts or rebates receivable plus any separately charged delivery or installation costs.

Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Land and buildings	: Freehold	- 1% - 16.7%
	: Leasehold	- as freehold or over the lease term where shorter
Plant and equipment	: General	- 8.5% to 25%
	: Computer equipment	- 25% to 33%
Motor vehicles	: Own use	- 12.5% to 40%
	: Contract hire vehicles	- straight line over the term of the hire contract to residual value

Investment properties

Investment properties are measured initially at cost, including transaction costs.

Depreciation is provided on all investment properties at a rate calculated to write off the cost, less estimated residual value, of each asset over an expected useful life of 50 years. Transfers are made to, or from, investment property only when there is a change in use.

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.

Group as a lessee

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Assets held under finance leases and hire purchase agreements are capitalised at the commencement of the lease at the inception date fair value of the leased assets or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group 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.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

2.5 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The useful life of customer relationships is expected to be up to 5 years and the intangibles are amortised on a straight line basis over the useful economic life. Amortisation is included in administrative expenses in the profit and loss account.

Impairment of non-financial assets

The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. Interest is not recognised on short-term receivables where the interest would be immaterial. This category generally applies to trade and other receivables.

2.5 Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or other payables.

All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of 3 months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, as they are considered an integral part of the Group's cash management.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Net realisable value is based on the estimated selling price less further costs expected to be incurred to completion and disposal.

The Directors have considered the terms of each of the individual manufacturer's consignment stocking agreements with specific reference to those terms that 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 manufacturer's consignment stocking agreement is such that the risks and rewards 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 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.

Provisions for liabilities

Provisions are recognised when the Group has a present obligation, whether legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of profit or loss.

The Group 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 early-settled by the customer or terminated early by the finance company 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 5 years in line with the terms of the associated finance arrangements.

2.5 Summary of significant accounting policies (continued)

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Sales of goods are recognised when the goods are delivered, 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.

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

Premiums are earned proportionally over the period of cover. The portion of premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as a provision for unearned premium. Premium income is shown net of insurance premium tax.

Where vehicles are supplied to third parties and the Group undertakes to repurchase the vehicle at a predetermined date and value, the significant risks and rewards of ownership are deemed not to have transferred outside the Group and consequently no sale is recognised. As a result the accounting for the arrangement reflects the Group's retention of the asset and, in accordance with IAS 17 Leases, the Group is considered to be an operating lessor for all arrangements in place. The initial amounts received in consideration from the third party are held as deferred income. The deferred revenue, which effectively represents rentals received in advance, is taken to the income statement on a straight-line basis over the related lease term. These vehicles are held within property, plant and equipment at their cost to the Group and are depreciated to their residual values over the terms of the leases.

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 Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Pension costs

The Group operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Group. The annual contributions payable are charged to the profit and loss account.

2.5 **Summary of significant accounting policies (continued)**

Insurance contracts

The Group provides Vehicle Replacement Insurance, a return to invoice gap insurance, to third-party customers from Arnold Clark Insurance (Malta) Limited, which is regulated by the Maltese Financial Services Authority.

Premiums vary depending on the value, age and mileage of the vehicle being insured and are earned proportionally over the period of cover provided. The pricing is reviewed monthly against market rates and loss experience and adjusted as necessary. The portion of premium received on in-force contracts that relates to unexpired risks at the accounting date is included in liabilities.

Claims and loss adjustment expenses are charged to the profit and loss account as incurred based on the estimated liability for compensation owed to policyholders. They include direct and indirect settlement costs arising from events that have occurred up to the accounting date, even if they have not yet been reported to the Group. Due to the short-term nature of the policies, the Group does not discount its liabilities for unpaid claims. Provision is made for all claims notified by the insured. Provision is also made for claims incurred but not reported ("IBNR") based on previous claims experience. Claims reserves comprise provisions for the estimated costs of settling all claims incurred up to, but not paid at, the accounting date. The level of provisioning is based on information that is currently available, including potential loss claims that have been intimated to the Group, experience of the development of similar claims and case law. Whilst the Directors consider that the provision of these claims is fairly stated on the basis of the information currently available to them, the ultimate liability may vary as a result of subsequent information and events. Adjustments to the amounts provided are reflected in the financial statements in the accounting year in which they arise.

The risks underwritten by the Group are short tail and the risk of material differences in the reported claims liabilities is considered to be insignificant.

3. **Significant accounting judgements, estimates and assumptions**

The preparation of the Group's consolidated 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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Provisions

The Group 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 early-settled by the customer or terminated early by the finance company 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 5 years in line with the terms of the associated finance arrangements.

The timing and quantum of the amounts due to the finance companies is inherently uncertain and the amounts provided are based on prior years' experience and on expectations for the future. The calculation of the provision requires the exercise of significant judgement by management and the key assumption is that a similar percentage of commissions will be clawed back in each future accounting periods. The provision has been discounted at the risk-free discount rate of 1% (2015 - 1%). Significant unforeseen changes in the wider economy or changes to the UK Gilt rates could result in the provision being misstated.

3. Significant accounting judgements, estimates and assumptions (continued)

Goodwill and other intangible assets

The Group reviews the goodwill arising on the acquisition of subsidiaries or businesses for impairment at least annually. Goodwill, other intangible assets and tangible assets are reviewed when events or changes in economic circumstances indicate that impairment may have taken place. The impairment review is performed by projecting the future cash flows, excluding finance and tax, of the associated cash generating unit based upon budgets and plans and making appropriate assumptions about rates of growth and discounting these using a rate that takes into account prevailing market interest rates and the risks inherent in the business. If the present value of the projected cash flows is less than the carrying value of the underlying net assets and related goodwill, an impairment charge would be required in the statement of profit or loss and other comprehensive income.

This calculation requires the exercise of significant judgement by management; if the estimates made prove to be incorrect or changes in the performance of the subsidiaries affect the amount and timing of future cash flows, goodwill may become impaired in future periods.

The Group estimates discounted rates based on pre-tax rates that reflect the Group's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Group. The WACC used in the calculation is 8.5% (2015 - 9.5%)

Growth rates are estimated using prudent long term economic forecasts for the United Kingdom of 2.0% (2015 - 2.0%).

The gross margins are assumed to be constant and in line with current year results.

Other than those noted above there are no other significant accounting judgements, estimates or assumptions.

4. Capital management

The Group's capital resources consist of share capital, hire purchase funding, other loans and cash and cash equivalents. The Group manages its capital to ensure that it will be able to continue as a going concern (see note 2.4) and to maximise profitability.

The Group is not subject to any externally imposed capital requirements and the capital resources and requirements are actively managed by the Directors.

Analysis of net debt

	2016 £000	2015 £000
Cash and cash equivalents	127,453	122,027
Hire purchase contracts	(423,974)	(436,689)
Loans	(37,933)	(18,024)
	(334,454)	(332,686)

5. Financial instruments risk management

The Group's principal financial liabilities comprise loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include financial assets, trade and other receivables and cash and cash equivalents that derive directly from its operations.

The Group is exposed to market risk, credit risk and liquidity risk. The Directors and the Group's senior management oversee the management of these risks. The Group operates a relatively straight-forward business model with no complex transactions or derivative transactions.

5. Financial instruments risk management (continued)

Market risk

The Group invests in a wide range of short-term instruments including deposits with approved counterparties, certificates of deposit issued by approved counterparties that are capable of being realised within 1 month without notice or penalty and equity investments.

The Group's main exposure is to the fair value interest rate risk as the investment portfolio mainly consists of deposits with credit institutions issued at fixed rates. These deposits do not carry a significant fair value risk since they earn a low interest rate and principally mature within the short term. The risk has also been kept to a minimum as the objective of the portfolio is to provide an investment return from a diversified portfolio of high quality issues that have low interest rate risk and a low level of capital volatility. The maturity profile of the certificates of deposit is spread with initial terms of between 3 and 12 months, thereby mitigating the impact on the financial assets of a movement in the interest rate.

The Directors do not deem this risk to be significant and, accordingly, a sensitivity analysis for interest rate risk is not deemed necessary in respect of the financial assets.

Whilst the Group's financial assets are predominantly held in deposits and certificates of deposit and therefore not subject to other price risks, a small proportion of the portfolio is held in actively traded equity investments. These investments are actively managed by Barclays Bank plc on behalf of the Group. The equity investments are not considered to be material and, consequently, the Directors do not deem this risk to be significant. As a result, no sensitivity analysis is deemed necessary.

Credit risk

The Group has exposure to credit risk, which is the risk that a counter-party will be unable to pay amounts in full when they fall due. The Group seeks to manage this risk by only investing with counterparties that meet a minimum credit rating of P1 (short term) or A3 (long term) depending on the time remaining to maturity. In the event of a downgrade of an investment to below the minimum rating, the Directors will assess the credit risk in determining whether to dispose of the investment or hold it to maturity.

The following table provides information regarding the Group's aggregated credit risk exposure at the reporting date and includes Moody's composite rating, when available.

At 31 December 2016

	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the statement of financial position
								£000
Cash and cash equivalents	1%	-	5%	2%	5%	87%	-	127,453
Financial assets at fair value through profit and loss	9%	15%	40%	33%	1%	-	2%	109,615
Total								237,068

At 31 December 2015

	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the statement of financial position
Cash and cash equivalents	-	-	-	2%	-	98%	-	122,027
Financial assets at fair value through profit and loss	13%	16%	19%	36%	13%	-	3%	89,799
Total								211,826

5. Financial instruments risk management (continued)

Trade receivables

The nature of the Group's business results in a significant proportion of the vehicle sales being either on a cash basis or are with regulated financial institutions. The transactions with the financial institutions are dealt with by a centralised unit and debts are closely monitored. Customer credit risk for other transactions is managed by each business unit and, in respect of fleet vehicle sales and certain parts sales, on a Group-wide basis and is subject to the Group's established policy, procedures and control relating to customer credit risk management. An impairment analysis is performed at each reporting date on an individual basis for each customer. The Group considers that the concentration of risk with respect to trade receivables is low as its only individually significant customers are regulated financial institutions. An analysis of the ageing of the trade receivables is included in note 22.

Liquidity risk

The Group monitors its risk of a shortage of funds by forecasting the future cash flows from each operating unit on a regular basis. Whilst the Group is extremely well funded and has significant cash reserves to meet its day to day obligations, 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. The current element of the liability will be met from the operating lease receipts from the hire of the corresponding vehicles and/or from the proceeds of the disposal of the vehicles at the end of the lease.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

At 31 December 2016

	On demand £000	In less 1 year £000	In 1 - 5 years £000	Total £000
Interest-bearing loans and borrowings	37,921	251,255	181,432	470,608
Trade and other payables	-	393,336	6,283	399,619
	37,921	644,591	187,715	870,227

At 31 December 2015

	On demand £000	In less 1 year £000	In 1 - 5 years £000	Total £000
Interest-bearing loans and borrowings	17,993	257,665	189,947	465,605
Trade and other payables	-	373,395	6,515	379,910
	17,993	631,060	196,462	845,515

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's hire purchase contracts which have floating interest rates. The Group does not enter into any derivative contracts to manage this risk.

The Directors have carried out sensitivity analysis in respect of a movement of 50 basis points in the interest rates, based on the Directors' assessment of the maximum likely change.

	+ 50 basis points		- 50 basis points	
	2016 £000	2015 £000	2016 £000	2015 £000
Effect on profit or loss	(1,380)	(1,316)	1,407	1,344

6. **Group information**

The consolidated financial statements of the Group include:

Name	Principal activity	Country of incorporation	Equity interest 2016 %	Equity interest 2015 %
Arnold Clark Finance Ltd	Hiring of motor vehicles	Scotland	100	100
Arnold Clark Holdings (Malta) Ltd	Intermediate holding company	Malta	100	100
Arnold Clark Insurance (Malta) Ltd	Insurance services	Malta	100	100
Arnold Clark Insurance Services Ltd	Insurance services	Scotland	100	100
Arnold Clark Life Insurance (Malta) Ltd	Insurance services	Malta	100	100
Assure Alarms Ltd	Intruder alarm installation and maintenance	Scotland	51	51
GTG Training Ltd	Provision of education and training	Scotland	100	100
Harry Fairbairn Ltd	Sale and servicing of motor vehicles	Scotland	100	100
Towquest Ltd	Provision of specialist computer software	England & Wales	100	100
Arnold Clark Vehicle Management Ltd	Dormant	Scotland	100	-
A Clark's West End Motors Ltd	Dormant	Scotland	100	100
Arnold Clark (Bearsden) Ltd	Dormant	Scotland	100	100
Arnold Clark (Birtley) Ltd	Dormant	England & Wales	100	100
Arnold Clark (Paisley) Ltd	Dormant	Scotland	100	100
Arnold Clark (Stirling) Ltd	Dormant	Scotland	100	100
Calterdon Ltd	Dormant	Scotland	100	100
Dane County Holdings Ltd	Dormant	England & Wales	100	100
Dane County Ltd	Dormant	England & Wales	100	100
Delmore Cars Ltd	Dormant	Scotland	100	100
Glasgow Training Group (Motor Trade) Ltd	Dormant	Scotland	100	100
Glasgow Training Group Ltd	Dormant	Scotland	100	100
Grangemouth Motor Group Ltd	Dormant	Scotland	100	100
Grant, Melrose & Tennent Ltd	Dormant	Scotland	100	100
Harpers (Aberdeen) Ltd	Dormant	Scotland	100	100
Hintonmead Ltd	Dormant	England & Wales	100	100
Hobin Group Ltd	Dormant	England & Wales	100	100
Hobin of Preston Ltd	Dormant	England & Wales	100	100
John R Weir (Inverness) Ltd	Dormant	Scotland	100	100
John R Weir Ltd	Dormant	Scotland	100	100
Macharg Rennie & Lindsay Ltd	Dormant	Scotland	100	100

6. Group information (continued)

Name	Principal activity	Country of incorporation	Equity interest 2016 %	Equity interest 2015 %
Maclaren Automotive Ltd	Dormant	England & Wales	100	100
Ness Motors (Holdings) Ltd	Dormant	Scotland	100	100
Ness Motors Ltd	Dormant	Scotland	100	100
Patterson Leasing Ltd	Dormant	England & Wales	100	100
Pattersons (Berwick) Ltd	Dormant	England & Wales	100	100
R H Patterson & Co Ltd	Dormant	England & Wales	100	100
R H Patterson (Motor Finance) Ltd	Dormant	England & Wales	100	100
R H Patterson (Ponteland) Ltd	Dormant	England & Wales	100	100
RHP (Hire) Ltd	Dormant	England & Wales	100	100
Scotiaford Ltd	Dormant	Scotland	100	100
Strathford (Ayrshire) Ltd	Dormant	Scotland	100	100
Strathford Motor Company Ltd	Dormant	Scotland	100	100
The Harper Motor Company Ltd	Dormant	Scotland	100	100
The Park Automobile Company Ltd	Dormant	Scotland	100	100
Tomkins (Glasgow) Ltd	Dormant	Scotland	100	100

The share capital of Arnold Clark Insurance (Malta) Limited and Arnold Clark Life Insurance (Malta) Limited is held indirectly via Arnold Clark Holdings (Malta) Limited.

The limited companies listed above which were incorporated in Scotland have a corresponding registered office address of 454 Hillington Road. Glasgow, Scotland, G52 4FH. Those listed above that were incorporated in England have a corresponding registered office address of 405-409 Scotswood Road, Newcastle Upon Tyne, NE4 7BP. The remainder, which were incorporated in Malta, have a corresponding registered office address of The Landmark, Level 1, Suite 2, Triq L -Iljun, Qormi QRM38800, Malta.

7. Business combinations

Other acquisitions

During the year the Group acquired the trade and assets of a number of businesses. These acquisitions are immaterial individually but are disclosed in aggregate below

	Fair value at acquisition £000
Property, plant and equipment	509
Vehicles and other inventories	1,807
Payables	(1,721)
	595
Goodwill	1,001
Consideration in cash	1,596

The goodwill of £1,001,000 represents the excess of consideration paid over fair value of identifiable assets and liabilities and represents the expected benefits from expanding the existing representation in the relevant market territories.

From the date of acquisition, the businesses acquired contributed £24,706,000 of revenue and a loss of £72,000 to profit before tax from continuing operations to the Group's results. Due to the nature of these transactions, the vendors have not disclosed the pre-acquisition results of the various sites and have retained the accounting records. Consequently, it is not possible to quantify the full year's impact on revenue and profit before tax of these acquisitions.

8. Fair value measurement

The following table presents the Group's assets that are measured at fair value by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

		Level 1		Level 2		Total
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Assets measured at fair value:						
Financial assets (note 23)						
Certificates of deposit	-	-	106,992	87,543	106,992	87,543
Quoted equity shares	2,623	2,256	-	-	2,623	2,256
Cash equivalents (note 24)						
Certificates of deposit	-	-	15,760	2,450	15,760	2,450
	2,623	2,256	122,752	89,993	125,375	92,249

The Group holds investments in a wide range of short-term instruments including deposits with approved counterparties and certificates of deposits issued by approved counterparties that can be realised within 1 month without notice or penalty. The fair value of the investments categorised as level 2 at year-end is determined by reference to the market yield for the specific period to maturity. The inputs required to fair value those investments are observable and consequently these investments as at 31 December 2016 and 31 December 2015 are being categorised as level 2.

There were no transfers between levels during 2016. All valuations have been carried out as at 31 December in the relevant year.

9. Revenue

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

	2016 £000	2015 £000
Distributing and retailing of motor vehicles	3,366,007	3,062,487
Servicing of motor vehicles	91,754	88,600
Hiring of motor vehicles	180,646	181,491
Insurance premiums receivable	9,207	7,177
Rental income from investment properties	3,726	4,280
Other	11,115	9,484
	3,662,455	3,353,519

All activities take place within the United Kingdom.

10. Other operating income

	2016 £000	2015 £000
Net gain on disposal of property, plant and equipment	4,022	3,004
Miscellaneous other income	151	211
	4,173	3,215

11. Finance costs

	2016 £000	2015 £000
Finance charges payable under hire purchase agreements	8,601	9,440
Other interest payable	3,783	3,147
Unwinding of discount and effect of changes in discount rate on provisions (note 27)	52	51
	12,436	12,638

12. Finance income

	2016 £000	2015 £000
Income from investments	485	644
Net gain / (loss) on financial assets at fair value through profit and loss	548	(84)
Bank interest receivable	936	741
	1,969	1,301

13. Operating profit

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

	2016 £000	2015 £000
Depreciation of property, plant and equipment	151,110	151,567
Amortisation of intangible assets	263	199
Costs of inventories recognised as an expense	2,894,948	2,639,441
Insurance claims made as insured	-	1,800
Insurance claims paid as insurer	1,261	1,098
Operating lease rentals - land and buildings	3,784	3,777
Gain on disposal of property, plant and equipment	4,022	3,004

14. Auditor's remuneration

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

	2016 £000	2015 £000
Fees payable to the company's auditor for the audit of the:		
Company's annual accounts	140	171
Subsidiaries' annual accounts	70	80
Total audit fees	210	251
Tax compliance	35	35
Other advisory	9	50
Total non-audit fees	44	85

15. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2016 £000	2015 £000
Wages and salaries	287,195	261,751
Social security costs	27,095	24,757
Pension costs	5,205	4,898
Total employee benefits expense	319,495	291,406

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

	2016 No.	2015 No.
Office and management	1,883	1,792
Sales	3,302	2,951
Technicians	5,487	5,144
	10,672	9,887

16. Key management remuneration

The key management compensation, which includes Directors and key operational staff, was as follows:

	2016 £000	2015 £000
Short-term employee benefits	11,552	11,172

The Directors' emoluments were as follows:

	2016 £000	2015 £000
Emoluments	10,064	8,879
Emoluments of the highest paid director	3,514	3,479

17. Income tax

The major components of income tax expense are:

	2016 £000	2015 £000
Current income tax:		
Corporation tax charge	27,591	27,244
Adjustments in respect of corporation tax charge of prior years	(1,302)	331
Deferred tax:		
Relating to origination and reversal of temporary differences	(1,899)	(3,352)
Effect of changes in tax rates	(890)	(1,214)
Adjustment in respect of previous years	(61)	-
Income tax expense reported in the statement of profit or loss	23,439	23,009

There was no tax charged to 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:

	2016 £000	2015 £000
Accounting profit before income tax	125,350	110,387
At UK corporation tax rate of 20.00% (2015 - 20.25%)	25,070	22,353
Tax effect of non-deductible expenses and non-taxable income	998	1,571
Effect of changes/differences in tax rates	(890)	(1,110)
Relief for overseas tax	(376)	-
Adjustments in respect of current income tax of prior periods	(1,302)	331
Adjustments in respect of deferred tax of prior periods	(61)	(136)
At the effective income tax rate of 18.7% (2015 - 20.8%)	23,439	23,009

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

17. Income tax (continued)

Deferred tax is calculated in full on temporary timing differences under the liability method at the rates in force when the difference is likely to reverse. The average tax rate for 2016 is 17.8% (2015 - 18.7%).

	Consolidated statement of financial position		Consolidated statement of profit or loss	
	2016 £000	2015 £000	2016 £000	2015 £000
Accelerated capital allowances	20,096	23,364	(3,268)	(3,900)
Other temporary differences	1,437	1,019	418	(666)
Deferred tax expense			(2,850)	(4,566)
Net deferred tax liability	21,533	24,383		

Reflected in the statement of financial position as follows:		
Deferred tax assets	(1,630)	(2,440)
Deferred tax liabilities	23,163	26,823
Net deferred tax liability	21,533	24,383

The movement on the deferred tax account is reconciled as follows:

	2016 £000	2015 £000
At 1 January	24,383	28,681
On acquisition of subsidiary undertakings / unincorporated businesses	-	268
Charged to the income statement	(2,850)	(4,566)
At 31 December	21,533	24,383

Deferred tax assets have been recognised in respect of other temporary differences giving rise to deferred tax assets because it is probable that there will be future taxable profits available.The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

18. Property, plant and equipment

Cost:	Land and buildings £000	Leasehold property £000	Plant and equipment £000	Motor vehicles £000	Total £000
At 1 January 2016	396,483	28,102	80,368	752,555	1,257,508
Additions	39,765	5,469	12,379	507,985	565,598
Disposals	(1,790)	(138)	(3,470)	(509,742)	(515,140)
Acquisitions	-	401	108	-	509
At 31 December 2016	434,458	33,834	89,385	750,798	1,308,475
Depreciation:					
At 1 January 2016	58,606	4,434	54,058	214,682	331,780
Provided during the year	7,640	836	8,514	134,120	151,110
Disposals	(699)	(8)	(3,140)	(140,764)	(144,611)
At 31 December 2016	65,547	5,262	59,432	208,038	338,279
Net book value:					
At 31 December 2016	368,911	28,572	29,953	542,760	970,196
At 31 December 2015	337,877	23,668	26,310	537,873	925,728

The Group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £688,457,000 (2015 - £691,576,000) and related accumulated depreciation of £195,470,000 (2015 - £199,735,000), which are held for use in operating leases. Additions during the year include £458,475,000 (2015 - £491,354,000) of motor vehicles purchased by way of hire purchase agreements. These cashflows have been presented gross in the cashflow, which accurately reflects the timing and structure of the related funding arrangements. These vehicles are provided as security in respect of the sums outstanding on the associated hire purchase agreements.

Included in property, plant and equipment at 31 December 2016 was an amount of £19,898,000 (2015 - £14,910,000) relating to expenditure for property in the course of construction.

19. Investment properties

	2016 £000	2015 £000
At 1 January	49,006	50,206
Additions	6,528	-
Transfers to property, plant and equipment	-	(1,200)
At 31 December	55,534	49,006

The Group's investment properties are carried at amortised cost in accordance with IAS 40. The Directors are of the opinion that the residual value of the properties is such that annual depreciation is immaterial.

20. Intangible assets

	Goodwill £000	Other intangibles £000	Total £000
Cost:			
At 1 January 2016	8,912	1,337	10,249
Acquisition of unincorporated businesses	1,001	-	1,001
Disposals	-	(116)	(116)
Impairment recognised on disposal	(377)	-	(377)
At 31 December 2016	9,536	1,221	10,757
Amortisation:			
At 1 January 2016	-	245	245
Provided during the year	-	263	263
Disposals	-	(36)	(36)
At 31 December 2016	-	472	472
Net book value:			
At 31 December 2016	9,536	749	10,285
At 31 December 2015	8,912	1,092	10,004

The goodwill of £9,536,000 (2015 - £8,912,000) arose on the acquisition of a number of dealerships; details of the movements in the year are included in note 7.

The Group's other intangibles consist of customer records, manufacturer franchise agreements and other intellectual property rights acquired as part of business combinations. Due to the interlinked nature of these assets the Directors are not able to determine the cash flows resulting from the individual elements and consequently these are shown as a single asset.

For the purposes of impairment testing of goodwill, the Group allocates the goodwill aquired in a business combination to cash generating units ("CGUs"). Management have determined that the CGU of the Group are the motor franchise groups and other business segments. The recoverable amount of each CGU's goodwill is based on its value in use calculated using the Board-approved budgets to calculate the discounted cash flows to perpetuity. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and gross margins.

The Group estimates discounted rates based on pre-tax rates that reflect the Group's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Group. The WACC used in the calculation is 8.5% (2015 - 9.5%).

Growth rates are estimated using prudent long-term economic forecasts for the United Kingdom of 2.0% (2015 - 2.0%).

The gross margins are assumed to be constant and in line with current year results.

Neither a 1% increase in the discount rate nor a 10% reduction in the forecast profitability would result in any impairment being required.

21. Inventories

	2016 £000	2015 £000
Motor vehicles	383,575	325,455
Parts and accessories	17,073	17,397
Work in progress and other stocks	5,447	5,052
Consignment stocks	67,938	71,062
	474,033	418,966

Included in motor vehicles is £45,701,000 (2015 - £28,398,000) that is pledged as security for the other loan (see note 28).

At 31 December 2016, the Group held vehicles on sale or return with a wholesale value of £144,685,000 (2015 - £152,705,000) excluding Value Added Tax.

Included in stocks is £67,938,000 (2015 - £71,062,000) in respect of vehicles where the risk and rewards of ownership are considered to lie with the Group.

The Directors are satisfied that the remaining vehicles totalling £76,747,000 (2015 - £81,643,000) 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.

22. Trade and other receivables

	2016 £000	2015 £000
Trade receivables	71,740	67,527
Other receivables	11,694	19,380
Prepayments and accrued income	29,610	33,081
	113,044	119,988

At 31 December 2016, trade receivables with an initial carrying value of £1,239,000 (2015 - £987,000) were impaired and fully provided for. The movements in the provision were as follows:

	2016 £000	2015 £000
At 1 January	987	735
Charge for the year	2,653	1,727
Utilised	(719)	(410)
Unused amounts reversed	(1,682)	(1,065)
At 31 December	1,239	987

22. Trade and other receivables (continued)

As at 31 December, the ageing analysis of trade receivables is, as follows:

	Neither past due nor impaired	Past due but not impaired			
		<30 days	30-60 days	60+ days	Total
	£000	£000	£000	£000	£000
2016	59,170	7,570	1,632	3,368	71,740
2015	56,417	7,229	1,527	2,354	67,527

23. Financial assets

The Group's investments are summarised by measurement category as follows:

	2016 £000	2015 £000
Fair value through profit and loss		
Certificates of deposit	106,992	87,543
Listed equities	2,623	2,256
	109,615	89,799

Movements in financial assets during the year were as follows:

	2016 £000	2015 £000
At 1 January	89,799	88,949
Net additions	19,268	934
Net fair value gains / (losses) recognised in the profit and loss account	548	(84)
At 31 December	109,615	89,799

24. Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	111,693	119,577
Certificates of deposit	15,760	2,450
	127,453	122,027

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Group invests surplus cash in a wide range of short-term instruments including deposits with approved counterparties and certificates of deposit issued by approved counterparties that are capable of being realised within 1 month without notice or penalty. Whilst all of the sums invested can be readily liquidated, those that are less than 3 months to maturity at the date of acquisition are treated as cash equivalents in accordance with IAS7.

25. Issued share capital

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

	Authorised		Allotted, called up and fully paid	
	2016 No.	2015 No.	2016 £000	2015 £000
Ordinary shares of £1 each	1,000,000	1,000,000	999	999

No shares were authorised or issued in either period.

26. Dividends

	2016 £000	2015 £000
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £2.50 per share (2015 - £3.75 per share)	2,498	3,747

The 2017 interim dividend of £3,497,000 was declared on 7 April 2017.

27. Provisions

	Commission clawback	
	2016 £000	2015 £000
At 1 January	6,612	6,606
Amounts utilised in the period	(4,239)	(3,444)
Amounts charged to the profit and loss account	4,314	3,399
Unwinding of discount	52	51
At 31 December	6,739	6,612
Amounts included in current liabilities	2,993	3,036
Amounts included in non-current liabilities	3,746	3,576
	6,739	6,612

The Group 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 early-settled by the customer or terminated early by the finance company 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 5 years in line with the terms of the associated finance arrangements.

The provision has been discounted at the risk-free discount rate of 1% (2015 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £337,000 and a 1% increase in the risk-free discount rate would reduce the provison by £90,000.

28. Financial liabilities

Interest-bearing loans and borrowings

	2016 £000	2015 £000
Current interest-bearing loans and borrowings:		
Other loans	37,933	18,024
Obligations under hire purchase agreements	245,306	250,469
	283,239	268,493
Non-current interest-bearing loans and borrowings:		
Obligations under hire purchase agreements	178,668	186,220
Total interest-bearing loans and borrowings	461,907	454,713

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

The Group has a number of hire purchase contracts for vehicles. The Group's obligations under hire purchase contracts are secured on the vehicles funded. Future minimum payments under hire purchase agreements, together with the present value of the net minimum lease payments, are as follows:

	Minimum payments		Present value of payments	
	2016 £000	2015 £000	2016 £000	2015 £000
Amounts payable				
Within one year	251,243	257,634	245,306	250,469
In two to five years	181,432	189,947	178,668	186,220
	432,675	447,581	423,974	436,689
Less: future finance charges	(8,701)	(10,892)		
Present value of hire purchase obligations	423,974	436,689		
Current interest-bearing borrowings			245,306	250,469
Non-current interest-bearing borrowings			178,668	186,220
			423,974	436,689

29. Trade and other payables

	2016 £000	2015 £000
Trade payables	185,528	172,406
Other taxes and social security costs	19,253	8,947
Other creditors	56,902	57,790
Insurance liabilities	877	691
Accruals and deferred income	156,388	152,357
Consignment stock creditor	67,938	71,062
Buyback creditor	-	2,253
	486,886	465,506
Amounts included in current liabilities	480,603	458,991
Amounts included in non-current liabilities	6,283	6,515
	486,886	465,506

Amounts included in non-current liabilities are comprised of; £952,000 included in other creditors in respect of deferred consideration for the acquisition of Assure Alarms Limited (2015 - £952,000); and £5,331,000 included in accruals and deferred income in respect of rentals paid in advance (2015 - £5,563,000).

Insurance liabilities are analysed as follows:

	2016 £000	2015 £000
Claims outstanding	219	147
Claims outstanding - incurred but not reported	658	544
Total insurance liabilities	877	691

The development tables below give an indication of the time it takes to settle certain claims.

	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Estimate of ultimate claims cost:					
at end of accounting period	151	151	150	402	
one year later	449	528	572	-	
two years later	996	1,069	-	-	
three years later	1,078	-	-	-	
Current estimate of cumulative claims	1,078	1,069	572	402	3,121
Cumulative payments to date	(1,072)	(831)	(306)	(110)	(2,319)
Liability recognised in the statement of financial position	6	238	266	292	802
Other technical provisions					75
					877

30. Commitments and contingencies

Operating lease commitments - Group as a lessee

The Group has entered into operating leases in respect of land and buildings, with lease terms from 1 to 116 years. Under some of the leases the Group and/or the landlord has the option to break the lease at specified points in time; in these cases the future minimum payments are calculated up until the specified point in time.

Future minimum rentals payable for land and buildings under non-cancellable operating leases as at 31 December are as follows:

	2016 £000	2015 £000
Within one year	3,560	3,295
After one year but not more than five years	10,349	8,839
More than five years	63,197	64,951
	77,106	77,085

Operating lease commitments - Group as a lessor

The Group has entered into operating leases as lessor in respect of contract hire vehicles and in respect of investment properties. The contract hire vehicles are leased for periods of between 12 and 48 months and the investment properties are on lease terms of up to 57 years with most of the agreements being subject to break clauses.

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

	Contract hire vehicles		Investment properties	
	2016 £000	2015 £000	2016 £000	2015 £000
Within one year	98,252	103,688	3,618	3,631
After one year but not more than five years	88,503	101,727	12,811	12,964
More than five years	-	-	17,716	18,028
	186,755	205,415	34,145	34,623

Capital commitments

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

	2016 £000	2015 £000
Contracted but not provided for	4,384	35,239

31. Reconciliation of profit to net cash flow from operating activities

	2016 £000	2015 £000
Profit for the year	101,911	87,378
Adjustment for taxation	23,439	23,009
Adjustment for net financing costs	10,467	11,337
	135,817	121,724
Depreciation	151,110	151,567
Amortisation of intangibles	263	199
Impairment recognised on disposal	457	-
Profit on disposal of property, plant and equipment	(4,022)	(3,004)
Increase in receivables	6,944	(21,608)
Increase in inventories	(56,384)	(21,954)
Increase in trade and other payables	22,783	41,488
Increase in provisions	127	6
Unwinding of discount on provisions	(52)	(51)
Additions to motor vehicles	(507,985)	(538,575)
Proceeds from disposal of motor vehicles	373,138	383,333
Taxation paid	(26,911)	(29,618)
Interest received	936	741
Interest paid	(12,384)	(13,421)
Net cash flow from operating activities	83,837	70,827

32. Ultimate controlling related party

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.

Company statement of financial position

at 31 December 2016

Arnold Clark Automobiles Limited

	Notes	2016 £000	2015 £000
Assets			
Non-current assets			
Property, plant and equipment	A5	422,825	382,312
Investment properties	A6	55,534	49,006
Intangible assets	A7	7,663	7,343
Investments	A8	65,482	65,482
		551,504	504,143
Current assets			
Inventories	A9	411,115	363,459
Trade and other receivables	A10	113,071	112,575
Financial assets	A11	50,090	31,643
Cash and cash equivalents	A12	89,037	79,681
		663,313	587,358
Total assets		1,214,817	1,091,501
Equity and liabilities			
Issued share capital	A13	999	999
Capital redemption reserve		1	1
Profit and loss account		696,638	616,870
Total equity		697,638	617,870
Non-current liabilities			
Provisions	A15	3,746	3,576
Trade and other payables	A18	952	952
Deferred tax liabilities	A16	11,414	11,856
		16,112	16,384
Current liabilities			
Interest-bearing loans and borrowings	A17	37,922	17,993
Trade and other payables	A18	444,209	422,542
Income tax payable		15,943	13,676
Provisions	A15	2,993	3,036
		501,067	457,247
Total liabilities		517,179	473,631
Total equity and liabilities		1,214,817	1,091,501

Approved by the Board on 21 APRIL 2017

E Hawthorne
Chief Executive

K J McLean
Finance Director

Company statement of changes in equity

for the year ended 31 December 2016

Arnold Clark Automobiles Limited

	Share Capital	Other capital reserves	Profit and loss account	Total
	£000	£000	£000	£000
As at 1 January 2015	999	1	543,320	544,320
Total comprehensive income	-	-	77,297	77,297
Dividends to shareholders	-	-	(3,747)	(3,747)
As at 31 December 2015	999	1	616,870	617,870
As at 1 January 2016	999	1	616,870	617,870
Total comprehensive income	-	-	82,266	82,266
Dividends to shareholders	-	-	(2,498)	(2,498)
As at 31 December 2016	999	1	696,638	697,638

Notes to the company financial statements

for the year ended 31 December 2016

Arnold Clark Automobiles Limited

A1. Statement of compliance with FRS 101

The results of Arnold Clark Automobiles Limited ("the Company") are included in the consolidated financial statements on pages 11 to 42.

The separate entity 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.

No Statement of Profit or Loss is presented by the Company as permitted by Section 408 of the Companies Act 2006. The Company had no other comprehensive income in either year.

The accounting policies that follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2016. The financial statements are prepared in Sterling and are rounded to the nearest thousand pounds (£000).

A2. Accounting policies

A2.1 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;

   i. paragraph 73(e) of IAS 16 Property, Plant and Equipment;

   i. paragraph 118(e) of IAS 38 Intangible Assets;

   i. paragraphs 76 and 79(d) of IAS 40 Investment Property;

e. the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS1 Presentation of Financial Statements;

f. the requirements of IAS 7 Statement of Cash Flows

g. the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;

h. the requirements of paragraph 17 of IAS24 Related Party Disclosures;

i. the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is a wholly owned by such a member; and

j. the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of assets.

In each instance equivalent disclosures are included in the consolidated financial statements of the Group in which the Company is consolidated.

A2.2 Summary of significant accounting policies

Business combinations and goodwill

All business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the Company will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised as negative goodwill in the statement of financial position. If, at the accounting date, the fair value of the net identifiable assets acquired and liabilities assumed can only be established provisionally then these values are used. Any adjustments to these values made within 12 months of the acquisition date are taken as adjustments to goodwill.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. An impairment test is performed annually.

Property, plant and equipment

Property, plant and equipment is stated at historical cost, net of accumulated depreciation and accumulated impairment losses, if any.

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%
	: Leasehold	-	as freehold or over the lease term where shorter
Plant and equipment	: General	-	8.5% to 25%
	: Computer equipment	-	25% to 33%
Motor vehicles		-	12.5% to 40%

Investment properties

Investment properties are measured initially at cost, including transaction costs.

Depreciation is provided on all investment properties at a rate calculated to write off the cost, less estimated residual value, of each asset over an expected useful life of 50 years.

Transfers are made to, or from, investment property only when there is a change in use.

A2.2 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.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

Intangible assets are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The useful life of customer relationships is expected to be up to 5 years. Amortisation is included in administrative expenses in the statement of profit or loss.

Impairment of non-financial assets

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial assets.

Subsequent measurement

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. Interest is not recognised on short-term receivables where the interest would be immaterial. This category generally applies to trade and other receivables.

A2.2 Summary of significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets

For financial assets carried at amortised cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income (recorded as finance income in the statement of profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or other payables.
All financial liabilities are recognised initially at fair value and net of directly attributable transaction costs.

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.

The Directors have considered the terms of each of the individual manufacturer's 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 Company and the manufacturer. These terms are the Company'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 manufacturer's consignment stocking agreement is such that the risks and rewards of ownership are substantially transferred to the Company, the stocks are recognised on the balance sheet and the corresponding liability to the manufacturer is included within creditors. 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.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of 3 months or less, which are subject to an insignificant risk of changes in value.

Provisions for liabilities

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of profit or loss.

The 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 5 years in line with the terms of the associated finance arrangements.

A2.2 Summary of significant accounting policies (continued)

Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A3. 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.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Provisions

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 early-settled by the customer or terminated early by the finance company 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 5 years in line with the terms of the associated finance arrangements.

The timing and quantum of the amounts due to the finance companies is inherently uncertain and the amounts provided are based on prior years' experience and on expectations for the future. The calculation of the provision requires the exercise of significant judgement by management. The provision has been discounted at the risk-free discount rate of 1% (2014 - 1%). Significant unforeseen changes in the wider economy or changes to the UK Gilt rates could result in the provision being misstated.

Goodwill and other intangible assets

The Company reviews the goodwill arising on the acquisition of subsidiaries or businesses for impairment at least annually. Goodwill, other intangible assets and tangible assets are reviewed when events or changes in economic circumstances indicate that impairment may have taken place. The impairment review is performed by projecting the future cash flows, excluding finance and tax, of the associated cash generating unit based upon budgets and plans and making appropriate assumptions about rates of growth and discounting these using a rate that takes into account prevailing market interest rates and the risks inherent in the business. If the present value of the projected cash flows is less than the carrying value of the underlying net assets and related goodwill, an impairment charge would be required in the Income Statement.

The Company estimates discount rates based on pre-tax rates that reflect the Company's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Company. The WACC used in the calculation is 8.5% (2015 - 9.5%)

Growth rates are estimated using prudent long term economic forecasts for the United Kingdom of 2.0% (2015 - 2.0%).

The gross margins are assumed to be constant and in line with current year results.

This calculation requires the exercise of significant judgement by management; if the estimates made prove to be incorrect or changes in the performance of the subsidiaries affect the amount and timing of future cash flows, goodwill may become impaired in future periods.

A4. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent Company is £82,266,000 (2015 - £77,297,000).

A5. Property, plant and equipment

Cost:	Land and buildings £000	Leasehold property £000	Plant and equipment £000	Motor vehicles £000	Total £000
At 1 January 2016	350,447	27,194	69,405	53,738	500,784
Additions	38,155	5,468	11,048	41,220	95,891
Disposals	(1,672)	(138)	(3,425)	(41,958)	(47,193)
Aquisitions	-	401	108	-	509
At 31 December 2016	386,930	32,925	77,136	53,000	549,991
Depreciation:					
At 1 January 2016	54,294	3,984	46,356	13,838	118,472
Provided during the year	6,705	819	7,428	9,902	24,854
Disposals	(699)	(8)	(3,105)	(12,348)	(16,160)
At 31 December 2016	60,300	4,795	50,679	11,392	127,166
Net book value:					
At 31 December 2016	326,630	28,130	26,457	41,608	422,825
At 31 December 2015	296,153	23,210	23,049	39,900	382,312

Assets under construction

Included in property, plant and equipment at 31 December 2016 was an amount of £19,855,000 (2015 - £14,883,000) relating to expenditure for property in the course of construction.

A6. Investment properties

	£000
At 1 January 2016	49,006
Additions	6,528
At 31 December 2016	55,534

The Company's investment properties are carried at amortised cost in accordance with IAS 40. The Directors are of the opinion that the residual value of the properties is such that annual depreciation is immaterial.

A7. Intangible assets

	Goodwill £000	Other intangibles £000	Total £000
Cost:			
At 1 January 2016	6,628	773	7,401
Acquisition of unincorporated businesses	1,001	-	1,001
Disposals	-	(116)	(116)
Impairment recognised on disposal	(377)	-	(377)
At 31 December 2016	7,252	657	7,909
Amortisation:			
At 1 January 2016	-	58	58
Provided in the year	-	224	224
Disposals	-	(36)	(36)
At 31 December 2016	-	246	246
Net book value:			
At 31 December 2016	7,252	411	7,663
At 31 December 2015	6,628	715	7,343

The Company's other intangibles consist of customer records, manufacturer franchise agreements and other intellectual property rights acquired as part of business combinations. Due to the interlinked nature of these assets the Directors are not able to determine the cash flows resulting from the individual elements and consequently these are shown as a single asset.

For the purposes of impairment testing of goodwill, the Group allocates the goodwill aquired in a business combination to cash generating units ("CGUs"). Management have determined that the CGU of the Group are the motor franchise groups and other business segments. The recoverable amount of each CGU's goodwill is based on its value in use calculated using the Board approved budgets to calculate the discounted cash flows to perpetuity. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and gross margins.

The Company estimates discount rates based on pre-tax rates that reflect the Company's weighted average cost of capital (WACC) which reflects current market assessments of the time value of money and the risks specific to the industry and the Company. The WACC used in the calculation is 8.5% (2015 - 9.5%).

Growth rates are estimated using long-term economic forecasts for the United Kingdom of 2.0% (2015 - 2.0%).

The gross margins are assumed to be constant and in line with current year results.

Neither a 1% increase in the discount rate nor a 10% reduction in the forecast profitability would result in any impairment being required.

A8. Investments

	Investment in subsidiaries £000	Other investments £000	Total £000
Cost of investments as at 31 December 2016 and 31 December 2015	65,472	10	65,482

A full list of subsidiary undertakings is provided in note 6.

A9. Inventories

	2016 £000	2015 £000
Motor vehicles	328,603	279,333
Parts and accessories	16,207	16,620
Work in progress and other stocks	5,351	4,967
Consignment stocks	60,954	62,539
	411,115	363,459

Included in motor vehicles is £45,701,000 (2015 - £28,398,000) that is pledged as security for the other loan (see note A17).

At 31 December 2016, the Company held vehicles on sale or return with a wholesale value of £137,702,000 (2015 - £144,182,000) excluding Value Added Tax.

Included in stocks is £60,954,000 (2015 - £62,539,000) in respect of vehicles where the risk and rewards of ownership are considered to lie with the Company.

The Directors are satisfied that the remaining vehicles totalling £76,748,000 (2015 - £81,643,000) 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.

A10. Trade and other receivables

	2016 £000	2015 £000
Trade receivables	55,449	50,125
Other receivables	11,050	18,725
Prepayments and accrued income	25,830	28,097
Amounts due from group undertakings	20,742	15,628
	113,071	112,575

A11. Financial assets

The Company's investments are summarised by measurement category as follows:

	2016 £000	2015 £000
Fair value through profit and loss		
Certificates of deposit	47,467	29,387
Listed equities	2,623	2,256
	50,090	31,643

Movements in financial assets during the year were as follows:

	£000
At 1 January 2016	31,643
Net additions	17,906
Net fair value gains recognised in the profit and loss account	541
At 31 December 2016	50,090

A12. Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	73,277	77,231
Certificates of deposit	15,760	2,450
	89,037	79,681

Cash at bank earns interest at floating rates based on daily bank deposit rates. The Company invests surplus cash in a wide range of short-term instruments including deposits with approved counter-parties and certificates of deposit issued by approved counter-parties that are capable of being realised within 1 month without notice or penalty. Whilst all of the sums invested can be readily liquidated, those that are less than 3 months to maturity at the date of acquisition are treated as cash equivalents in accordance with IAS7.

A13. Issued share capital

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

	Authorised		Allotted, called up and fully paid	
	2016 No.	2015 No.	2016 £000	2015 £000
Ordinary shares of £1 each	1,000,000	1,000,000	999	999

No shares were authorised or issued in either period.

A14. Dividends

	2016 £000	2015 £000
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £2.50 per share (2015 - £3.75 per share)	2,498	3,747

The 2017 interim dividend of £3,497,000 was declared on 7 April 2017.

A15. Provisions

	Commission clawback	
	2016 £000	2015 £000
At 1 January	6,612	6,602
Amounts utilised in the period	(4,239)	(3,443)
Amounts charged to the profit and loss account	4,314	3,402
Unwinding of discount	52	51
At 31 December	6,739	6,612
Amounts included in current liabilities	2,993	3,036
Amounts included in non-current liabilities	3,746	3,576
	6,739	6,612

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 early-settled by the customer or terminated early by the finance company 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 5 years in line with the terms of the associated finance arrangements.

The provision has been discounted at the risk-free discount rate of 1% (2015 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £337,000 and a 1% increase in the risk-free discount rate would reduce the provision by £90,000.

A16. Deferred tax liability

Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 17.7% (2015 - 18.7%).

	2016 £000	2015 £000
Accelerated capital allowances	8,426	8,526
Other timing differences	2,988	3,330
Deferred tax liability	11,414	11,856

Deferred tax assets have been recognised in respect of other temporary differences giving rise to deferred tax assets because it is probable that there will be future taxable profits available.

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

A17. Financial liabilities

Current interest-bearing loans and borrowings:

	2016 £000	2015 £000
Other loans	37,922	17,993

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

A18. Trade and other payables

	2016 £000	2015 £000
Trade payables	147,584	146,914
Other taxes and social security costs	18,375	9,977
Other creditors	40,051	39,754
Accruals and deferred income	96,271	85,302
Consignment stock creditor	60,954	62,539
Buyback creditor	-	2,253
Amounts due to group undertakings	81,926	76,755
	445,161	423,494
Amounts included in current liabilities	444,209	422,542
Amounts included in non-current liabilities	952	952
	445,161	423,494

The Company previously entered into arrangements whereby it agreed to repurchase vehicles from customers at the end of the agreement, typically 1 to 4 years in the future. All such contracts have now expired.

A19. 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 116 years. Under some of the leases the Company and/or the landlord has the option to break the lease at specified points in time, in these cases the future minimum payments are calculated up until the specified point in time.

Future minimum rentals payable for land and buildings under non-cancellable operating leases as at 31 December are as follows:

	2016 £000	2015 £000
Within one year	3,122	2,998
After one year but not more than five years	8,820	8,155
More than five years	62,856	64,471
	74,798	75,624

Company as a lessor

The Company has entered into operating leases as lessor in respect of investment properties on lease terms of up to 57 years with most of the agreements being subject to break clauses.

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

	2016 £000	2015 £000
Within one year	3,618	3,631
After one year but not more than five years	12,811	12,964
More than five years	17,716	18,028
	34,145	34,623

A20. Capital commitments

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

	2016 £000	2015 £000
Contracted but not provided for	4,245	7,217

A21. Other financial commitments

The Company has undertaken to repurchase certain motor vehicles throughout 2017. 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.

A22. Contingent liabilities

Under a group registration for Value Added Tax, the companies within the Group are jointly and severally liable for Value Added Tax due by any member of the group registration. At 31 December 2016, the Value Added Tax payable by other members of the group registration amounted to £439,000 (2015 - repayable to other members of group registration amounted to £653,000).

Under the terms of an inter-company guarantee, the parent company and its trading subsidiaries have jointly and severally guaranteed repayment of all sums due to The Royal Bank of Scotland plc by any of the parties to the guarantee. At 31 December 2016, the other companies included in the guarantee had net funds of £37,102,000 (2015 - £41,876,000) due from The Royal Bank of Scotland plc.

A23. Directors emoluments

The Directors' emoluments were as follows:

	2016 £000	2015 £000
Emoluments	9,513	8,319
Emoluments of the highest paid Director	3,514	3,479