SC036386

ARNOLD CLARK AUTOMOBILES LIMITED
ANNUAL REPORT

31 December 2012

DIRECTORS, PRINCIPAL OFFICERS AND ADVISERS

DIRECTORS

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

OPERATIONS BOARD

R E Borrie	Group Franchise Manager and Director of Harry Fairbairn Limited
A D Brown BA (Hons) CA	Group Financial Controller
J A Clark BA MSc MIMI	Group Franchise Manager
D M Cooper B Acc (Hons) FCCA	Group Leasing/Finance Manager and Director of Arnold Clark Finance Limited
G R M Forbes BA (Hons)	Group Operations Manager
C S Henry BA (Hons) FCIPD	Group Human Resources Manager
S J MacAulay MIMI	Group Parts Manager

OTHER PRINCIPAL OFFICERS

S Ashforth BA (Hons)	Group Marketing Manager
W J Stoddart	Group Bodyshop Manager
S K Thorpe BA (Hons) FCA	Group Financial Accountant

REGISTERED OFFICE

134 Nithsdale Drive
Glasgow G41 2PP

PRINCIPAL BANKERS

The Royal Bank of Scotland plc
1304 Duke Street, Glasgow G31 5PZ

AUDITORS

Ernst & Young LLP
G1, 5 George Square, Glasgow G2 1DY

TAX ADVISERS

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

VAT ADVISERS

Deloitte LLP
1 City Square, Leeds LS1 2AL

CHAIRMAN'S STATEMENT

TRADING AND RESULTS

I am extremely pleased to be able to report another successful year for the group despite a very weak UK economy generally. Turnover increased by 10.3% to a record high of £2.48bn, thanks to a combination of like for like growth and incremental turnover from acquisitions. New and used vehicle sales increased by 10.3% and 4.6% respectively. Operating profit before goodwill amortisation increased by 18.3% to £73.0m, helping the group to surpass net assets of £500m for the first time.

Superb trading performances by Arnold Clark Finance Limited, our vehicle management and self drive hire business, and GTG Training Limited underline our strength across the group in a slowly recovering motor industry.

ACQUISITIONS AND INVESTMENT

The group continued to generate significant levels of operational cashflow, allowing us to invest in our existing property portfolio and to take advantage of acquisition opportunities both as retailers and as landlords. After five acquisitions in the first half of 2012, as reported in the Interim Statement, acquisition activity intensified in the second half of the year with a further twelve retail sites being added, increasing our number of franchised outlets by 34 in the year.

The trade and assets of two Volkswagen sites in Wishaw and Rutherglen, near Glasgow, were purchased in early August as well as strengthening our presence in North West England with the addition of Vauxhall branches in Morecambe and Kendal.

The most significant addition in the year came at the end of August, when we were delighted to announce the acquisition of the John R. Weir business. This acquisition added the largest Mercedes Benz market area in the UK, comprising of five key Mercedes sites in Grangemouth, Perth, Dundee, Aberdeen and Inverness as well as Smart in Perth, Inverness and Aberdeen. This long established business offers significant potential to move forward with a prestige franchise as well as adding Kia, Jeep and Chrysler representation in Perth.

Further dealership acquisitions took place in November with the purchase of a Vauxhall dealership and bodyshop in Blackpool complementing our earlier acquisition in the town. We also acquired the trade and assets of a Hyundai, Jeep and Chrysler site on the south side of Glasgow and a site in Kemnay, near Aberdeen, which represents Peugeot, Chrysler, Jeep and Chevrolet.

The group added to its investment property portfolio during the year with the purchase of a tenanted motor dealership in Bootle, near Liverpool, in June. The acquisition of a substantial building in Wolverhampton, which will be operated by GTG Training Limited, was completed in September. A major refurbishment programme is already underway with the facility set to be fully operational by summer 2013. This site will provide us with a bespoke training centre in England to meet all of our training needs as we expand, but is also available as a location for third party training and conferences and we are currently establishing relationships with local authorities and businesses. Our final acquisition in 2012 was a tenanted retail unit in Longman Road, Inverness which has longer term potential for motor retail activity.

CHAIRMAN'S STATEMENT

REFURBISHMENT AND DEVELOPMENT

The redevelopment and renovation of our existing showrooms continued in the year. The Peugeot 'Blue Box' concept was adopted in our Hamilton Road, Glasgow showroom and creates a minimalist yet stylish customer environment. A full refit to our Irvine BMW branch was completed in February and was one of the first showrooms in the UK to incorporate the 'Slice Architecture' styling.

Works were completed on our flagship Ford dealership in Linwood, near Glasgow, in May. The multi-million pound redevelopment creates an unparalleled customer environment and this is reflected in the record levels of vehicle sales that have been achieved at the site. Other notable refurbishments in the year were to Northwich Vauxhall and two of our largest Volkswagen sites in Scotland. The group continues to invest heavily in our existing showrooms with further redevelopments underway.

Significant investment has also been made in our IT infrastructure, particularly with regard to our award winning and industry renowned website - www.arnoldclark.com. The site has seen a 49% increase in visitors in the year and is compatible with a multitude of media devices. Particular attention has been paid to increasing interaction with customers through social media and further technological advances are providing us with new and innovative marketing avenues.

OPERATIONS BOARD

In early 2012, the Board of Directors undertook an operational review with the aim of improving the efficiency of the group and achieving our medium to long term business goals. Following this review, it was decided to form an Operations Board reporting to the main Board of Directors, consisting of highly valued and experienced members of the Arnold Clark management team who, between them, cover all functional areas of the business. The impact of the Operations Board has already been substantial and I would like to thank them for their splendid efforts to date.

FUTURE PROSPECTS

Whilst the wider economic situation remains uncertain, the consensus in the motor industry is for modest growth in both the new and used retail markets. Our hard work and impressive results in recent years mean that we are confident about our ability to achieve profitable expansion, both organically and through strategic acquisitions. We have laid down strong foundations for growth and are fully committed to achieving our goal of being the UK's pre-eminent motor retailer.

On behalf of the Board, I would also like to extend my sincere thanks to our employees who are central to the group's ongoing success. Without their commitment and dedication these results would not have been possible. Continued investment in our staff and focus on overall customer experience is paramount to our vision and I look forward to what should be another successful year.

Sir Arnold Clark
Chairman
25 March 2013

DIRECTORS' REPORT

The directors present their report and the group financial statements for the year ended 31 December 2012.

RESULTS AND DIVIDENDS

The profit on ordinary activities before taxation amounted to £60,505,000 (2011 - £51,762,000). The profit for the year, after taxation, amounted to £46,769,000 (2011 - £40,611,000).

An ordinary interim dividend of £2,098,000 was paid during the year (2011 - £nil). The directors recommend that no final dividend be paid, which leaves a profit of £44,671,000 (2011 - £40,611,000) to be retained.

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

The group balance sheet discloses net current liabilities of £111m arising primarily as a result of hire purchase payments due on contract hire vehicles. These payments will be met from vehicle rental income receivable in the future under the relevant contract hire agreements.

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

	2012	**2011**	**Change**
Group turnover	£2,484m	£2,253m	10.3%
New car sales (units)	79,979	72,538	10.3%
Used car sales (units)	122,398	116,994	4.6%
Group operating profit before amortisation of goodwill	£73.0m	£61.7m	18.3%

New car sales increased by 10.3% in the year and like for like sales increased by 6.0%, which was above the industry average. The wider new vehicle market was buoyant in 2012 although it is predicted that growth will flatten in the coming year. Fleet sales increased by 11.5%, which was due to some significant contracts gained in the year.

Used car sales increased by 4.6% year on year, primarily a result of the branches that were acquired in the year. Like for like sales increased marginally, by 1.2%, in what was a relatively stable market.

Turnover reached a record high of £2,484m and group operating profit before amortisation increased by £11.3m as a result of the rise in vehicle sales and strong residual values.

The Board anticipate that, in light of the continuing tough economic conditions, 2013 will see modest growth in the UK motor industry. However, the strength of the company and the early trading results mean we can look forward with confidence. The Board predict that turnover will increase in the coming year and expect profitability to remain at levels similar to 2012.

A further review of the business is provided in the Chairman's Statement on pages 2 and 3.

MARKET VALUE OF LAND AND BUILDINGS

The group now has an extensive portfolio of properties throughout the UK. The directors are conscious that the group's properties represent an important and valuable asset and consider that the open market value of the group's land and buildings is in excess of £325m.

DIRECTORS' REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

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. The main risks associated with the group's financial assets and liabilities are set out below.

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

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

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

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

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

Manufacturers: Many of our dealerships operate under franchise agreements with automotive manufacturers. We are dependent on the various manufacturers because, without a franchise agreement, we cannot operate a new vehicle franchise or perform manufacturer warranty services and, 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.

EMPLOYEE INVOLVEMENT

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

DISABLED EMPLOYEES

The group gives every consideration to applications for employment from disabled persons where the requirements of the job may be adequately covered by a disabled person.

With regard to existing employees and those who have become disabled during the year, the group has continued to examine ways and means of providing continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate.

DIRECTORS' REPORT

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were members of the board at the time of approving the Directors' Report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant information and to establish that the company's auditors are aware of that information.

AUDITORS

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

On behalf of the board

E Hawthorne
Managing Director
25 March 2013

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT

to the members of Arnold Clark Automobiles Limited

We have audited the financial statements of Arnold Clark Automobiles Limited for the year ended 31 December 2012 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Parent Company Balance Sheets, the Group Statement of Cash Flows and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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. 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 2012 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Ernst & Young LLP

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

25 March 2013

GROUP PROFIT & LOSS ACCOUNT

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
TURNOVER	2	2,484,080	2,253,071
Cost of sales		(2,094,370)	(1,899,246)
GROSS PROFIT		389,710	353,825
Administrative and distribution expenses		(322,841)	(296,174)
		66,869	57,651
OTHER OPERATING INCOME		4,035	2,518
Operating profit	3	70,904	60,169
Analysed as:			
Operating profit before amortisation of goodwill		72,976	61,689
Amortisation of goodwill	8	(2,072)	(1,520)
Income from listed investments		93	78
Bank interest receivable		859	701
Other interest receivable		-	171
Interest payable	6	(11,351)	(9,357)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		60,505	51,762
Tax on profit on ordinary activities	7	(13,736)	(11,151)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	19	46,769	40,611

All operations were classed as continuing operations during the year.

Group Statement of Total Recognised Gains and Losses

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £46,769,000 in the year ended 31 December 2012 and the profit of £40,611,000 in the year ended 31 December 2011.

GROUP BALANCE SHEET
at 31 December 2012

	Notes	2012 £000	2011 £000
FIXED ASSETS			
Goodwill	8	6,301	978
Negative goodwill	8	(1,133)	(1,150)
		5,168	(172)
Tangible assets	9	759,891	679,075
Investments	10	84,621	85,576
		849,680	764,479
CURRENT ASSETS			
Stocks	11	331,410	287,087
Debtors	12	62,973	61,146
Cash at bank and in hand		58,858	64,440
		453,241	412,673
CREDITORS: amounts falling due within one year	13	(564,422)	(498,556)
NET CURRENT LIABILITIES		(111,181)	(85,883)
TOTAL ASSETS LESS CURRENT LIABILITIES		738,499	678,596
CREDITORS: amounts falling due after more than one year	14	(168,678)	(158,307)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(37,256)	(32,395)
NET ASSETS		532,565	487,894
CAPITAL AND RESERVES			
Called up share capital	18	999	999
Capital redemption reserve	19	1	1
Capital reserve	19	612	612
Profit and loss account	19	530,953	486,282
EQUITY SHAREHOLDERS' FUNDS	20	532,565	487,894

Approved by the Board on 25 March 2013

Sir Arnold Clark
Chairman

E Hawthorne
Managing Director

COMPANY BALANCE SHEET

at 31 December 2012

	Notes	2012 £000	2011 £000
FIXED ASSETS			
Goodwill	8	6,636	1,149
Tangible assets	9	315,106	267,755
Investments	10	76,314	65,180
		398,056	334,084
CURRENT ASSETS			
Stocks	11	295,876	253,194
Debtors	12	44,205	43,123
Cash at bank and in hand		28,824	48,534
		368,905	344,851
CREDITORS: amounts falling due within one year	13	(313,982)	(276,487)
NET CURRENT ASSETS		54,923	68,364
TOTAL ASSETS LESS CURRENT LIABILITIES		452,979	402,448
CREDITORS: amounts falling due after more than one year	14	(555)	(708)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(12,102)	(11,344)
NET ASSETS		440,322	390,396
CAPITAL AND RESERVES			
Called up share capital	18	999	999
Capital redemption reserve	19	1	1
Capital reserve	19	2,646	2,646
Profit and loss account	19	436,676	386,750
EQUITY SHAREHOLDERS' FUNDS		440,322	390,396

Approved by the Board on 25 March 2013

Sir Arnold Clark
Chairman

E Hawthorne
Managing Director

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Notes	2012 £000	2011 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	21(a)	195,921	153,217
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		859	872
Income from listed investments		93	78
Interest paid		(2,463)	(2,294)
Interest element of hire purchase contracts		(9,028)	(7,149)
		(10,539)	(8,493)
TAXATION PAID		(14,178)	(9,648)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire fixed assets		(376,754)	(341,267)
Net payments to acquire investments		(1,166)	(4,257)
Receipts from sales of fixed assets		183,508	200,450
Net receipt from disposal of investments		2,121	702
		(192,291)	(144,372)
ACQUISITIONS AND DISPOSALS			
Payments to acquire subsidiary undertakings		(17,705)	-
Net cash acquired with subsidiary undertakings		(510)	-
		(18,215)	-
EQUITY DIVIDENDS PAID		(2,098)	-
NET CASH FLOW BEFORE FINANCING		(41,400)	(9,296)
FINANCING			
Repayment of borrowings		(195,961)	(17,657)
Receipt from new loans		185,774	25,569
Repayment of capital element of hire purchase contracts		(306,189)	(225,493)
New hire purchase contracts		352,194	217,678
		35,818	97
DECREASE IN CASH		(5,582)	(9,199)

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Notes	2012 £000	2011 £000
Decrease in cash		(5,582)	(9,199)
Repayment of borrowings		195,961	17,657
Receipts from new loans		(185,774)	(25,569)
Repayment of capital element of hire purchase contracts		306,189	225,493
New hire purchase contracts		(352,194)	(217,678)
CHANGE IN NET DEBT RESULTING FROM CASH FLOWS		(41,400)	(9,296)
Other non-cash movements	21(b)	(3,342)	-
MOVEMENT IN NET DEBT		(44,742)	(9,296)
NET DEBT AT 1 JANUARY	21(b)	(274,605)	(265,309)
NET DEBT AT 31 DECEMBER	21(b)	(319,347)	(274,605)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

BASIS OF CONSOLIDATION

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

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

No parent company profit and loss account is published, in accordance with the exemption available under s.408 of the Companies Act 2006; the profit dealt with in the financial statements of the parent company is £52,024,000 (2011 - £26,920,000).

GOING CONCERN

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

The group funds vehicles purchased for its contract hire fleet using hire purchase contracts from a number of providers. The vehicles are accounted for as fixed assets and a corresponding liability is recognised, an element of which will be classified as a current liability. This gives rise to the group's net current liabilities position at the year end. The directors have reviewed the group's forecasted cash flows and these are sufficient to meet the liabilities as they fall due.

Taking into account the above and after making enquiries, the directors believe that the group has adequate resources to meet its liabilities as they fall due for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the accounts.

GOODWILL

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. ACCOUNTING POLICIES (CONTINUED)

DEPRECIATION

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

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

INVESTMENT PROPERTIES

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

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

STOCKS

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. ACCOUNTING POLICIES (CONTINUED)

LEASING AND HIRE PURCHASE COMMITMENTS

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

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

PROVISIONS FOR LIABILITIES

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

DEFERRED TAX

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

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

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

PENSION COSTS

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

2. TURNOVER AND SEGMENTAL ANALYSIS

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

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

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

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

		Distributing, retailing and servicing of motor vehicles		Hiring of motor vehicles		Total	
		2012	2011	2012	2011	2012	2011
		£000	£000	£000	£000	£000	£000
Turnover							
	Continuing	2,289,396	2,092,552	167,965	160,519	2,457,361	2,253,071
	Acquisitions	26,719	-	-	-	26,719	-
		2,316,115	2,092,552	167,965	160,519	2,484,080	2,253,071
Profit before taxation							
	Continuing	50,003	43,214	11,398	8,548	61,401	51,762
	Acquisitions	(896)	-	-	-	(896)	-
		49,107	43,214	11,398	8,548	60,505	51,762
Net assets							
	Continuing	486,880	443,589	34,970	44,305	521,850	487,894
	Acquisitions	10,715	-	-	-	10,715	-
		497,595	443,589	34,970	44,305	532,565	487,894

3. OPERATING PROFIT

This is stated after charging / (crediting):

		2012	2011
		£000	£000
Auditors' remuneration	- audit services	175	163
Depreciation	- owned assets	20,965	19,589
	- assets held under hire purchase contracts	105,240	100,668
Amortisation of goodwill		2,072	1,520
Operating lease rentals	- land and buildings	3,260	2,520
Gain on sale of fixed assets		(2,488)	(2,022)

The auditors' remuneration includes £126,000 in respect of the audit of the company (2011 - £114,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

4. STAFF COSTS

	2012 £000	2011 £000
Wages and salaries	184,337	178,761
Social security costs	17,563	16,990
Pension costs	2,040	1,549
	203,940	197,300

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

	2012 No.	2011 No.
Office and management	1,568	1,531
Sales	2,243	2,118
Servicing	4,504	4,438
	8,315	8,087

5. DIRECTORS' EMOLUMENTS

	2012 £000	2011 £000
Emoluments	5,905	4,460
Emoluments of the highest paid director	2,190	1,930

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £000	2011 £000
Finance charges payable under hire purchase contracts	8,888	7,063
Stocking loans	2,416	2,221
Other	47	73
	11,351	9,357

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

7. TAX

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2012 £000	2011 £000
Current tax:		
UK corporation tax	8,895	13,297
Adjustments in respect of previous years	485	(4,281)
Total current tax (note 7(b))	9,380	9,016
Deferred tax:		
Origination and reversal of timing differences	6,861	1,844
Effect of decreased tax rate on opening liability	(2,235)	(2,084)
Adjustments in respect of previous years	(270)	2,375
Group deferred tax charge (note 7(c))	4,356	2,135
Tax on profit on ordinary activities	13,736	11,151

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 24.5% (2011 - 26.5%). The differences are reconciled below:

	2012 £000	2011 £000
Profit on ordinary activities before tax	60,505	51,762
Profit on ordinary activities multiplied by standard rate of corporation tax to the group of 24.5% (2011 - 26.5%)	14,824	13,717
Expenses not deductible for tax purposes	1,388	1,713
Accelerated capital allowances	(7,318)	(2,091)
Other timing differences	4	(42)
Application of small company rates	(3)	-
Adjustments in respect of previous years	485	(4,281)
Total current tax (note 7(a))	9,380	9,016

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

7. TAX (CONTINUED)

(c) Deferred tax

GROUP

The deferred tax included in the balance sheet is as follows:

	2012 £000	2011 £000
Included in provisions for liabilities and charges (note 17)	31,061	26,784
Accelerated capital allowances	32,822	28,199
Other timing differences	(1,761)	(1,415)
Provision for deferred tax	31,061	26,784

	£000
At 1 January 2012	26,784
Deferred tax charge in group profit and loss account (note 7(a))	4,356
Acquired with subsidiary undertakings	(79)
At 31 December 2012	31,061

COMPANY

The deferred tax included in the balance sheet is as follows:

	2012 £000	2011 £000
Included in provisions for liabilities and charges (note 17)	5,926	5,798
Accelerated capital allowances	6,223	6,125
Other timing differences	(297)	(327)
Provision for deferred tax	5,926	5,798

	£000
At 1 January 2012	5,798
Deferred tax charge in profit and loss account	207
Acquired with subsidiary undertakings	(79)
At 31 December 2012	5,926

(d) Factors that may affect future tax charges

The tax charge in future periods may be affected by the group's continued ability to shelter gains through rollover relief. No provision has been made for tax in respect of gains rolled over. Gains that have been previously rolled over may crystallise in the future, if it is not possible to reinvest in suitable qualifying replacement assets, and result in an increased tax liability. The total amount of the tax unprovided is £3,600,000 (2011 - £3,900,000). At present, it is not envisaged that any tax will become payable in the foreseeable future in this regard.

The UK Government have announced their intention to reduce the main UK corporation tax rates to 20% by 1 April 2015. The reduction in the corporation tax rate to 23% was included in the finance bill that was substantively enacted on 3 July 2012 and is reflected in the deferred tax calculation. The further rate reductions will not be substantively enacted until later periods. Had the reductions already been enacted, the deferred tax liability of the group at 31 December 2012 would be reduced by £4,240,000 and the liability of the company would be reduced by £773,000.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

8. GOODWILL

GROUP

	Goodwill £000	Negative goodwill £000	Total £000
Cost:			
At 1 January 2012	10,967	(1,351)	9,616
Additions	7,412	-	7,412
At 31 December 2012	18,379	(1,351)	17,028
Amortisation:			
At 1 January 2012	(9,989)	201	(9,788)
Provided during the year	(2,089)	17	(2,072)
At 31 December 2012	(12,078)	218	(11,860)
Net book value:			
At 31 December 2012	6,301	(1,133)	5,168
At 31 December 2011	978	(1,150)	(172)

COMPANY

	Goodwill £000
Cost:	
At 1 January 2012	6,205
Additions	7,771
At 31 December 2012	13,976
Amortisation:	
At 1 January 2012	(5,056)
Provided during the year	(2,284)
At 31 December 2012	(7,340)
Net book value:	
At 31 December 2012	6,636
At 31 December 2011	1,149

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

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

8. GOODWILL (CONTINUED)

TRUE AND FAIR OVERRIDE ON DIVISIONALISATION OF SUBSIDIARIES

In order to rationalise the group structure following the acquisitions of certain subsidiaries, the trade and net assets of those subsidiary undertakings were transferred to the company at their book value as at the date of transfer. The cost of the company's investment in the subsidiary reflected the underlying fair value of its net assets and goodwill at the time of its acquisition. As a result of this transfer, the value of the company's investment in that subsidiary undertaking fell below the amount at which it was stated in the company's accounting records. The directors consider that, as there had been no overall loss to the group, it would fail to give a true and fair view to charge the diminution to the company's profit and loss account and it should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill. The effect on the company's balance sheet of this departure is to recognise goodwill of £12,159,000 (2011 - £5,630,000). Amortisation of £1,561,000 has been charged in respect of this goodwill during the year (2011 - £1,126,000) and the accumulated amortisation is £6,065,000 (2011 - £4,504,000).

The company paid £1,241,000 for goodwill during the acquisition of the trade and assets of a number of smaller businesses during the year.

9. TANGIBLE FIXED ASSETS

GROUP

	Land and buildings £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost:				
At 1 January 2012	290,312	54,338	590,077	934,727
Additions	40,801	6,535	328,177	375,513
Disposals	(1,931)	(289)	(287,925)	(290,145)
Acquisition of subsidiary undertakings	12,150	285	93	12,528
At 31 December 2012	341,332	60,869	630,422	1,032,623
Depreciation:				
At 1 January 2012	37,901	40,109	177,642	255,652
Provided during the year	5,787	6,212	114,206	126,205
Disposals	(43)	(161)	(108,921)	(109,125)
At 31 December 2012	43,645	46,160	182,927	272,732
Net book value:				
At 31 December 2012	297,687	14,709	447,495	759,891
At 31 December 2011	252,411	14,229	412,435	679,075

The group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £585,733,000 (2011 - £551,464,000) and related accumulated depreciation of £172,867,000 (2011 - £168,991,000), which are held for use in operating leases.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2012

9. TANGIBLE FIXED ASSETS (CONTINUED)

COMPANY

	Land and buildings £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost:				
At 1 January 2012	265,522	47,761	32,844	346,127
Additions	36,292	5,742	32,482	74,516
Disposals	(1,931)	(409)	(25,435)	(27,775)
Transfer from subsidiary undertakings	12,103	213	36	12,352
At 31 December 2012	311,986	53,307	39,927	405,220
Depreciation:				
At 1 January 2012	35,151	35,144	8,077	78,372
Provided during the year	5,275	5,624	8,194	19,093
Disposals	(43)	(334)	(6,974)	(7,351)
At 31 December 2012	40,383	40,434	9,297	90,114
Net book value:				
At 31 December 2012	271,603	12,873	30,630	315,106
At 31 December 2011	230,371	12,617	24,767	267,755

The net book value of land and buildings comprises:

	Group 2012 £000	Group 2011 £000	Company 2012 £000	Company 2011 £000
Investment properties	21,338	13,525	21,338	13,525
Freehold	256,026	226,855	230,433	205,299
Long leasehold	20,323	12,031	19,832	11,547
	297,687	252,411	271,603	230,371

The directors are of the opinion that the current market value and the book value of the investment properties are not materially different.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

10. INVESTMENTS

GROUP

	Listed investments £000	Other investments £000	Total £000
Cost:			
At 1 January 2012	1,837	83,801	85,638
Additions	494	672	1,166
Disposals	(405)	(1,716)	(2,121)
At 31 December 2012	1,926	82,757	84,683
Amounts provided:			
At 1 January 2012 and at 31 December 2012	62	-	62
Net book value:			
At 31 December 2012	1,864	82,757	84,621
At 31 December 2011	1,775	83,801	85,576

The market value of the listed investments at 31 December 2012 was £2,306,000 (2011 - £2,185,000).

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

COMPANY

	Other investments £000	Subsidiaries £000	Total £000
At 1 January 2012	16,070	49,110	65,180
Additions	149	17,705	17,854
Disposals	(190)	-	(190)
Transfer to goodwill	-	(6,530)	(6,530)
At 31 December 2012	16,029	60,285	76,314

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

Included in other investments is £1,660,000 (2011 - £1,850,000) held by Harlequin Insurance PCC Limited, a joint arrangement that is not an entity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

10. INVESTMENTS (CONTINUED)

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

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

On 31 August 2012, the company acquired the entire share capital of Grangemouth Motor Group Limited. On 31 October 2012 the trade, assets and liabilities of Grangemouth Motor Group Limited and its subsidiary undertaking, John R Weir Limited, were transferred to Arnold Clark Automobiles Limited. The investment in Grangemouth Motor Group Limited is included in the company's balance sheet at cost.

Net assets and fair values to group at date of acquisition:

	£000
Tangible fixed assets	12,528
Stocks	6,690
Debtors (including deferred taxation of £79,000)	3,296
Net bank overdraft	(510)
Creditors: amounts due within one year	(10,470)
Net assets	11,534
Goodwill arising on acquisition	6,171
	17,705
Discharged by:	
Cash	17,495
Costs associated with the acquisition	210
	17,705

Grangemouth Motor Group Limited contributed £2,015,000 to the group's net operating cashflows, paid £224,000 in respect of net returns on investments and servicing of finance, paid £665,000 in respect of taxation, paid £4,338,000 for capital expenditure and financial investment and paid £3,342,000 in respect of financing.

10. INVESTMENTS (CONTINUED)

Grangemouth Motor Group Limited earned a profit after tax of £13,000 in the year ended 31 October 2012 (2011 - £176,000) of which £373,000 arose in the period from 1 November 2011 to 31 August 2012. The summarised profit and loss account for the period from 1 November 2011 to the date of acquisition is as follows:

	£000
Turnover	75,132
Operating profit	1,828
Net interest	(582)
Profit before tax	1,246
Taxation	(873)
Profit for the period 1 November 2011 to 31 August 2012	373

11. STOCKS

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Motor vehicles	250,582	197,965	221,078	172,250
Parts and accessories	14,244	12,509	13,851	12,187
Other	3,297	2,881	3,169	2,782
Consignment stocks	62,579	72,977	57,070	65,251
Buy back vehicles	708	755	708	724
	331,410	287,087	295,876	253,194

GROUP

At 31 December 2012 the group held vehicles on sale or return with a wholesale value of £128,174,000 (2011 - £119,057,000) excluding Value Added Tax.

Included in stocks is £62,579,000 (2011 - £72,977,000) in respect of vehicles where the risk and rewards of ownership are considered to lie with the group. The corresponding liability is included within creditors (note 13).

The directors are satisfied that the remaining vehicles totalling £65,595,000 (2011 - £46,080,000) are assets of the manufacturers. In relation to these stocks, the group primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

COMPANY

At 31 December 2012 the company held vehicles on sale or return with a wholesale value of £122,665,000 (2011 - £111,331,000) excluding Value Added Tax.

Included in stocks is £57,070,000 (2011 - £65,251,000) in respect of vehicles where the risk and rewards of ownership are considered to lie with the company. The corresponding liability is included within creditors (note 13).

The directors are satisfied that the remaining vehicles totalling £65,595,000 (2011 - £46,080,000) are assets of the manufacturers. In relation to these stocks, the company primarily retains the right to return the stock to the manufacturer without significant penalty and/or has a limited ability to prevent the stock being allocated to third parties and/or the final price payable has not yet been determined.

12. DEBTORS

	Group		Company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Trade debtors	35,710	35,024	19,124	19,054
Other debtors	2,799	5,089	2,178	4,447
VAT recoverable	2,404	-	5,241	2,655
Prepayments and accrued income	22,060	21,033	17,662	16,967
	62,973	61,146	44,205	43,123

13. CREDITORS: amounts falling due within one year

	Group		Company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Other loans repayable on demand (note 15)	18,724	25,569	18,724	25,569
Obligations under hire purchase contracts (note 16)	197,122	160,460	-	-
Trade creditors	141,989	104,509	94,684	65,738
Current corporation tax	9,301	13,121	3,955	6,374
Other taxes and social security costs	6,439	8,285	6,065	5,484
Other creditors	29,038	27,105	10,675	8,054
Accruals and deferred income	99,077	86,483	69,063	56,057
Consignment stock creditor	62,579	72,977	57,070	65,251
Buy back vehicle creditor	153	47	153	16
Amounts due to group undertakings	-	-	53,593	43,944
	564,422	498,556	313,982	276,487

14. CREDITORS: amounts falling due after more than one year

	Group		Company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Obligations under hire purchase contracts (note 16)	162,359	153,016	-	-
Buy back vehicle creditor	555	708	555	708
Rentals in advance	5,764	4,583	-	-
	168,678	158,307	555	708

15. LOANS

	Group		Company	
	2012	2011	2012	2011
	£000	£000	£000	£000
Amounts falling due:				
In one year or less or on demand	18,724	25,569	18,724	25,569

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

16. OBLIGATIONS UNDER LEASES AND HIRE PURCHASE CONTRACTS

Amounts due under hire purchase contracts:

GROUP

	2012 £000	2011 £000
Amounts payable:		
Within one year (note 13)	197,122	160,460
In two to five years (note 14)	162,359	153,016
	359,481	313,476

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

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Operating leases which expire:				
Within one year	131	185	95	142
In two to five years	612	579	563	542
In over five years	2,566	1,609	2,213	1,531
	3,309	2,373	2,871	2,215

17. PROVISIONS FOR LIABILITIES AND CHARGES

GROUP

	Commission clawback £000	Deferred taxation £000	Total £000
At 1 January 2012	5,611	26,784	32,395
Charged in the year	3,795	4,356	8,151
Utilised in the year	(3,211)	-	(3,211)
Acquisition of subsidiary undertaking	-	(79)	(79)
At 31 December 2012	6,195	31,061	37,256

COMPANY

	Commission clawback £000	Deferred taxation £000	Total £000
At 1 January 2012	5,546	5,798	11,344
Charged in the year	3,802	207	4,009
Utilised in the year	(3,172)	-	(3,172)
Transferred from subsidiary undertakings	-	(79)	(79)
At 31 December 2012	6,176	5,926	12,102

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

Details of the deferred taxation provided in the accounts are included in note 7(c).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

18. SHARE CAPITAL

	Authorised		Allotted, called up and fully paid	
	2012	2011	2012	2011
	No.	No.	£000	£000
Ordinary shares of £1 each	1,000,000	1,000,000	999	999

19. RESERVES

GROUP

	Capital redemption reserve £000	Capital reserve £000	Profit and loss account £000
At 1 January 2012	1	612	486,282
Profit for the year	-	-	46,769
Dividends	-	-	(2,098)
At 31 December 2012	1	612	530,953

COMPANY

	Capital redemption reserve £000	Capital reserve £000	Profit and loss account £000
At 1 January 2012	1	2,646	386,750
Profit for the year	-	-	52,024
Dividends	-	-	(2,098)
At 31 December 2012	1	2,646	436,676

20. MOVEMENT IN SHAREHOLDERS' FUNDS

GROUP

	2012 £000	2011 £000
Shareholders' funds at 1 January	487,894	447,283
Profit for the year	46,769	40,611
Dividends	(2,098)	-
Shareholders' funds at 31 December	532,565	487,894

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

21. NOTES TO THE STATEMENT OF CASH FLOWS

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

	2012 £000	2011 £000
Operating profit	70,904	60,169
Depreciation of tangible fixed assets	126,205	120,257
Net amortisation of goodwill	2,072	1,520
Gain on disposal of fixed assets	(2,488)	(2,022)
Decrease / (increase) in stocks	(37,633)	(57,387)
Decrease / (increase) in debtors	1,390	3,605
Increase / (decrease) in creditors	34,887	28,856
Increase / (decrease) in provisions	584	(1,781)
Net cash inflow from operating activities	195,921	153,217

(b) Analysis of net debt

	At 1 January 2012 £000	Cash flows £000	Acquisition of subsidiaries £000	At 31 December 2012 £000
Cash at bank and in hand	64,440	(5,582)	-	58,858
Hire purchase contracts	(313,476)	(46,005)	-	(359,481)
Loans	(25,569)	10,187	(3,342)	(18,724)
	(274,605)	(41,400)	(3,342)	(319,347)

22. CAPITAL COMMITMENTS

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

	Group		Company	
	2012 £000	2011 £000	2012 £000	2011 £000
Contracted but not provided for	7,078	8,377	5,463	7,836
Authorised but not contracted	11,221	17,731	11,186	17,731
	18,299	26,108	16,649	25,567

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2012

23. OTHER FINANCIAL COMMITMENTS

In addition to buy back vehicles referred to in notes 11, 13 and 14, the company has undertaken to repurchase certain motor vehicles throughout 2013. 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.

24. CONTINGENT ASSETS / LIABILITIES

COMPANY

Under a group registration for Value Added Tax the companies within the group are jointly and severally liable for Value Added Tax due by any member of the group registration. At 31 December 2012 the Value Added Tax payable by other members of the group registration amounted to £2,610,000 (2011 - £5,018,000).

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 2012, the other companies included in the guarantee had net funds of £26,980,000 (2011 - £15,392,000) due from The Royal Bank of Scotland plc.

25. ULTIMATE CONTROLLING PARTY

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

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