ARNOLD CLARK AUTOMOBILES LIMITED
ANNUAL REPORT 2015

SC36386

Directors, principal officers and advisers

Arnold Clark Automobiles Limited

Directors

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

Operations Board

A D Brown BA (Hons) CA	Group Financial Operations Director
A H W Clark BSc (Hons)	Group Fleet & Business Development Director
G R M Forbes BA (Hons)	Group Customer Service & Operations Director
C S Henry BA (Hons) FCIPD	Group Human Resources Director
S J MacAulay MIMI	Group Aftersales Director
S K Thorpe BA (Hons) FCA	Company Secretary

Registered Office

454 Hillington Road,
Glasgow G52 4FH

Principal Bankers

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

Auditors

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

Tax Advisers

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

VAT Advisers

Deloitte LLP
1 City Square, Leeds LS1 2AL

Chairman's Statement

Arnold Clark Automobiles Limited

It gives me great pleasure to present another strong set of results for the group. Turnover increased by 2.2% to a record £3.35bn and operating profit rose by £2.1m to £121.7m. Used vehicle sales experienced exceptional growth, with an increase of 10.8% to 175,526 units. The increase was partly attributable to the new sites opened in the year but it was pleasing to note that like for like sales were up by 7.9%. Overall new vehicle sales fell by 8.4% in the year, largely as a result of a large fleet contract that was not renewed due to the significant amount of working capital tied up in the arrangement. New retail units increased by 0.4% in a wider UK car market that experienced only modest growth.

Arnold Clark Finance Limited, our vehicle management and daily rental business, once again made a significant contribution to group profits. The company posted an increase in turnover of 10.7% to £559.2m though profit before tax fell by 3.8% to £15.5m. This reduction in profitability was a result of the exceptional year the daily rental division experienced in 2014, in part due to additional business generated by major sporting events held in Scotland.

It is with great sadness that I have to reflect on the loss of a dear friend and colleague, Hugh Wallace, in 2015. As well as being my brother in law, Hugh was a very valued and trusted member of my staff and of the board for over 40 years. Hugh was instrumental in developing Arnold Clark Vehicle Management and his wit, generosity of spirit and wise counsel are sorely missed.

Acquisitions and investment

The group continued to add to its dealership network in strategic areas across the UK throughout the year.

In January, we acquired a Vauxhall dealership in the West Lothian town of West Calder. The branch complements our Vauxhall site in Livingston and has exceeded all expectations since joining the group. A second Vauxhall dealership acquired in March in East Kilbride expands our presence in the town.

The most significant acquisition in 2015 came at the start of February when we purchased the entire share capital of Ness Motors Limited, which had operations in Inverness, Perth and Elgin. Over 100 members of staff were welcomed into the group as part of the acquisition and we expect the sites to perform well in the coming year.

In April, we purchased the entire share capital of Hobin of Preston Limited, which operated a SEAT dealership in the city. The new site is located next to our existing Renault branch and has helped to build our profile in the area.

In May, we purchased a further SEAT dealership in the Benton area of Newcastle. Extensive works were subsequently carried out to the site to significantly increase our stock holding capability.

The purchase of the trade and assets of Midwest Motor Factors also completed in May. The West Midlands based operation trades out of 6 locations and employs more than 80 members of staff. Through development of existing and prospective relationships with customers and suppliers, we aim to become the area's foremost parts distributor.

In October, we purchased the trade and assets of a used car outlet in Burton upon Trent. The four acre site can display over 300 vehicles and increases our Motorstore franchise presence in Staffordshire. We also took the opportunity to acquire premises which had previously been leased by us at Stretford, Manchester and Kilbirnie Street Van Centre in Glasgow.

In December, a further two Motorstore sites were opened in advance of our annual Real Sale event. The first location, a nine acre site in Chesterfield, has display space for over 600 used cars. This was followed shortly after by a branch in Wallgate, Wigan, the group's 21st Motorstore.

On 31 December 2015, we purchased a controlling stake in Assure Alarms Limited, based in East Kilbride. Its existing management team remains in place and, with the group's backing, we plan to expand the business geographically and reap the subsequent benefits of economies of scale.

Chairman's Statement

Arnold Clark Automobiles Limited

Refurbishment and development

After acquiring BMW and MINI franchises on Harbour Road, Inverness in 2014, bespoke premises were constructed on Longman Road and opened in November. The new sites, which sit on one of the city's main thoroughfares, incorporate the very latest manufacturer franchise standards and can display over 165 cars.

Following the substantial redevelopment of an eleven acre site at Hillington, near Glasgow Airport, we recently opened the UK's largest Renault showroom. The site holds over 400 new and used cars and is part of a new generation of 'Renault Store' concept showrooms. In addition to its retail operation, the site is home to our new head office, which will accommodate around 500 members of staff. We expect it to be fully operational by April 2016.

In March, our Activa Contracts business unit relocated to our own, larger facility in Milton Keynes. These new premises are key to the expansion of our fleet operation across England and Wales and provide a strong foundation from which to increase the 7,000 vehicles currently under Activa's management.

Our group wide rebrand was also completed in the year with a striking dark grey and yellow design bringing our new identity to all Motorstores and daily rental facilities. This branding exercise has modernised our image and highlights the design talents of our team.

Regrettably, in late December, a fire broke out at our Service centre on Girdleness Road, Aberdeen. Fortunately, no-one was injured but the damage was so severe that a full demolition was required. A new Service centre will be constructed in the coming year. In the meantime, servicing work for the branch is being carried out at our other Aberdeen based Service centres. I would like to take this opportunity to thank our staff in Aberdeen for handling this difficult situation with the utmost professionalism and our customers, who have shown great understanding and loyalty to the company.

Business development

In November, our industry-renowned website ArnoldClark.com was relaunched with a redesigned experience for mobile and tablet users. We have already seen significant increases in customer engagement with mobile page views increasing by over 70% since the relaunch, new visitors to the site increasing by 14.8% and overall sales enquiries rising by 30.2% year on year. We pride ourselves on being at the leading edge of modern vehicle retailing and a strong internet presence is vital to maintaining this.

The Arnold Clark Insurance Services' site was also redesigned to significantly improve our insurance customer journey. Motor, home and breakdown insurance policies can now be purchased online with further product launches planned for the coming year.

Awards and recognition

Linwood SEAT was announced as SEAT's 'Dealer of the Year' in a ceremony held in March 2015. The same branch was also awarded the accolade of 'Sales Dealer of the Year'. These awards coincided with the group having represented SEAT for 20 years.

In December, our Midwest Motor Factors operation was awarded the title of 'Distributor of Excellence' at the Independent Automotive Aftermarket Federation awards ceremony. This award recognises the efforts of everyone associated with the Autoparts business and the progress that has been made since the Midwest Motor Factors acquisition earlier in 2015.

Finally, after the balance sheet date, we were delighted to be recognised at the Automotive Management (AM) awards ceremony at the ICC, Birmingham. Arnold Clark Automobiles Limited was presented with awards for 'Best Dealer Website', 'Best Retail Group with more than 10 sites' and the very prestigious 'Retailer of the Year' award.

Future prospects

In 2016 we expect that the new car market will remain relatively static, with used cars experiencing similar growth to 2015. Funding remains in place to take advantage of any opportunities that may arise and to overcome any market volatility. Early trading results have been very promising and our strategic objectives remain unchanged; namely, focusing on customer experience, product availability and widening the geographic footprint of the group.

Our people, and their individual efforts, underpin the success of the business. In recognition of this, we continue to invest heavily in the recruitment and training of all of our employees and apprentices. We are privileged to have a diverse and talented workforce and our customer feedback continually reflects their high level of commitment. I would like to take this opportunity to thank every employee for their contribution to what has been another excellent year for the group.

Arnold Clark

Sir Arnold Clark
Chairman

22 APRIL 2016

Strategic report

Arnold Clark Automobiles Limited

The Directors present their strategic report for the year ended 31 December 2015.

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:

	2015	2014	Change
Group turnover	£3,354m	£3,280m	2.2%
New car sales (units)	83,813	91,477	(8.4)%
Used car sales (units)	175,526	158,384	10.8%
Group operating profit	£121.7m	£119.6m	1.7%

Used car sales increased by 10.8% due to the opening of new branches and like for like sales increasing by 7.9%. 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 fell by 8.4% due to a large fleet contract that was not renewed in the year due to the significant levels of working capital required to operate the arrangement. New retail units increased by a modest 0.4%, in what was a relatively static UK market, and it is expected that 2016 will experience similar levels of growth.

Turnover rose by 2.2% to a record £3,354m and Group operating profit increased to £121.7m primarily as a result of the increase in used car sales. Early trading results have been very encouraging and the Board predicts that both turnover and profitability will increase at similar levels in 2016.

A further review of the business is provided in the Chairman's Statement on pages 2 to 4.

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.

Strategic report

Arnold Clark Automobiles Limited

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
Managing Director

22 APRIL 2016

Directors' report

Arnold Clark Automobiles Limited

The Directors present their report for the year ended 31 December 2015.

Results and dividends

The profit on ordinary activities before taxation amounted to £110,387,000 (2014 - £107,926,000). The profit for the year, after taxation, amounted to £87,378,000 (2014 - £82,347,000).

An ordinary interim dividend of £3,747,000 was paid during the year (2014 - £1,499,000). The Directors recommend that no final dividend be paid, which leaves a profit of £83,631,000 (2014 - £80,848,000) to be retained. The 2016 interim dividend of £2,498,000 has been declared prior to the signing of these accounts.

A further review of the business and its principal risks is provided in the Chairman's Statement on pages 2 to 4 and in the Strategic Report on pages 5 and 6.

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 £440m.

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
H D Wallace
Lady Clark
W G P Gall

H D Wallace ceased to be a director on 19 May 2015. J A Clark, R E Borrie and D M Cooper were appointed as directors on 22 January 2016.

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.

On behalf of the Board

E Hawthorne
Managing Director
22 APRIL 2016

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 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 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 2015, 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 34 and A1 to A24. 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 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2015 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.

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.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

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

22 April 2016

Consolidated statement of profit or loss and other comprehensive income

for the year ended 31 December 2015

Arnold Clark Automobiles Limited

	Notes	2015 £000	2014 £000
Revenue	9	3,353,519	3,280,195
Cost of sales		(2,819,799)	(2,782,742)
Gross profit		533,720	497,453
Distribution expenses		(252,414)	(230,506)
Administrative expenses		(162,797)	(151,243)
Other operating income	10	3,215	3,933
Operating profit		121,724	119,637
Finance costs	11	(12,638)	(12,650)
Finance income	12	1,301	939
Profit before tax from continuing operations		110,387	107,926
Income tax expense	17	(23,009)	(25,579)
Profit for the year		87,378	82,347
Other comprehensive income		-	-
Total comprehensive income for the year		87,378	82,347

All operations were classed as continuing operations during the year.

Consolidated statement of financial position

at 31 December 2015

Arnold Clark Automobiles Limited

	Notes	2015 £000	2014 £000	As at 1 January 2014 £000
Assets				
Non-current assets				
Property, plant and equipment	18	925,728	859,010	801,830
Investment properties	19	49,006	50,206	39,950
Intangible assets	20	10,004	5,948	5,281
Investments		10	10	10
Deferred tax assets	17	2,440	2,249	2,820
		987,188	917,423	849,891
Current assets				
Inventories	21	418,966	375,789	341,390
Trade and other receivables	22	119,988	94,815	69,962
Financial assets	23	89,799	88,949	77,282
Cash and cash equivalents	24	122,027	106,302	111,564
		750,780	665,855	600,198
Total assets		1,737,968	1,583,278	1,450,089
Equity and liabilities				
Issued share capital	25	999	999	999
Other capital reserves		1	1	1
Profit and loss account		755,444	671,813	590,965
Total equity		756,444	672,813	591,965
Non-current liabilities				
Interest-bearing loans and borrowings	28	186,220	170,460	169,620
Provisions	27	3,576	3,564	3,611
Trade and other payables	29	6,515	5,438	5,279
Deferred tax liabilities	17	26,823	30,930	36,635
		223,134	210,392	215,145
Current liabilities				
Interest-bearing loans and borrowings	28	268,493	271,915	237,502
Trade and other payables	29	458,991	395,254	380,273
Income taxes payable		27,870	29,862	22,246
Provisions	27	3,036	3,042	2,958
		758,390	700,073	642,979
Total liabilities		981,524	910,465	858,124
Total equity and liabilities		1,737,968	1,583,278	1,450,089

Approved by the Board on 22 APRIL 2016

E Hawthorne
Managing Director

K J McLean
Finance Director

Consolidated statement of changes in equity

for the year ended 31 December 2015

Arnold Clark Automobiles Limited

	Share Capital	Other capital reserves	Revaluation reserve	Profit and loss account	Total
As at 1 January 2014	999	613	1,589	594,201	597,402
Restatement for first-time adoption of IFRS	-	(612)	(1,589)	(3,236)	(5,437)
As 1 January 2014 (restated)	999	1	-	590,965	591,965
Total comprehensive income	-	-	-	82,347	82,347
Dividends to shareholders	-	-	-	(1,499)	(1,499)
As at 31 December 2014	999	1	-	671,813	672,813
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

Consolidated statement of cash flows

for the year ended 31 December 2015

Arnold Clark Automobiles Limited

	Notes	2015 £000	2014 £000
Net cash inflow from operating activities	31	70,827	13,260
Investing activities			
Proceeds from sale of property, plant and equipment		6,440	2,702
Purchase of property, plant and equipment		(57,074)	(37,975)
Purchase of investment properties		-	(3,256)
Acquisition of subsidiaries, net of cash acquired		(11,339)	(2,037)
Proceeds from sale of investments		19,272	874
Purchase of investments		(20,206)	(12,674)
Income from investments		644	90
Net cash flows used in investing activities		(62,263)	(52,276)
Financing activities			
Proceeds from borrowings		275,188	263,566
Repayment of borrowings		(279,368)	(266,530)
Proceeds from new hire purchase contracts		435,391	406,725
Repayment of capital element of hire purchase contracts		(420,303)	(368,508)
Dividends paid to equity holders of the parent		(3,747)	(1,499)
Net cash flows from financing activities		7,161	33,754
Net increase / (decrease) in cash and cash equivalents		15,725	(5,262)
Cash and cash equivalents at 1 January		106,302	111,564
Cash and cash equivalents at 31 December	24	122,027	106,302

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 investment properties and 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 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.

2.3 Going concern

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

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

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

2.4 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, which 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 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.

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

Investment properties

Investment properties are measured initially at cost, including transaction costs. In accordance with IFRS 1 - First-time adoption, the market value of the investment properties held at 1 January 2014, the date of transition, has been used as the deemed cost of the investment properties held at that date.

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.

2.4 Summary of significant accounting policies (continued)

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

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.

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.

2.4 Summary of significant accounting policies (continued)

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.

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.

2.4 Summary of significant accounting policies (continued)

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 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.

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.

2.4 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 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.

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 annually 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.

2.5 First-time adoption of IFRS

These financial statements, for the year ended 31 December 2015, are the first the Group has prepared in accordance with IFRS. For periods up to and including the year ended 31 December 2014, the Group prepared its financial statements in accordance with UK Generally Accepted Accounting Principles (UK GAAP). Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods ending on or after 31 December 2015, together with the comparative period data as at and for the year ended 31 December 2014, as described in the summary of significant accounting policies. In preparing these financial statements, the Group's opening statement of financial position was prepared as at 1 January 2014, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP financial statements, including the statement of financial position as at 1 January 2014 and the financial statements as at and for the year ended 31 December 2014.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS, or of interests in associates and joint ventures that occurred before 1 January 2014. Use of this exemption means that the UK GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Group did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

IFRS 1 also requires that the UK GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Group has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2014.

The Group's investment properties were carried in the statement of financial position prepared in accordance with UK GAAP on the basis of valuations performed on 31 December 2013. The Group has elected to regard those values as deemed cost at the date of the revaluation since they were broadly comparable to fair value.

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.

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

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% (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 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 9.5% (2014 - 8.0%)

Growth rates are estimated using prudent long term economic forecasts for the United Kingdom of 2.0% (2014 - 1.0%).

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 2.3) 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

	2015 £000	2014 £000
Cash and cash equivalents	122,027	106,302
Hire purchase contracts	(436,689)	(421,552)
Loans	(18,024)	(20,823)
	(332,686)	(336,073)

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.

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 24 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.

5. Financial instruments risk management objectives and policies (continued)

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 2015

	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the statement of financial position
								£000
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

At 31 December 2014

	AA1	AA2	AA3	A1	A2	A3	Not rated	Carrying value in the statement of financial position
								£000
Cash and cash equivalents	-	4%	2%	4%	1%	88%	1%	106,302
Financial assets at fair value through profit and loss	12%	13%	22%	18%	32%	-	3%	88,949
Total								195,251

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.

5. Financial instruments risk management objectives and policies (continued)

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 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

At 31 December 2014

	On demand £000	In less 1 year £000	In 1 - 5 years £000	Total £000
Interest-bearing loans and borrowings	20,823	258,143	174,067	453,033
Trade and other payables	-	313,955	5,438	319,393
	20,823	572,098	179,505	772,426

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	
	2015 £000	2014 £000	2015 £000	2014 £000
Effect on profit or loss	(1,316)	(1,276)	1,344	1,298

6. Group information

The consolidated financial statements of the Group include:

Name	Principal activity	Country of incorporation	Equity interest 2015 %	Equity interest 2014 %
Arnold Clark Autocare Ltd	Investment holding company	Guernsey	-	100
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	-
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
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	-
Hobin of Preston Ltd	Dormant	England & Wales	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 2015 %	Equity interest 2014 %
Maclaren Automotive Ltd	Dormant	England & Wales	100	100
Ness Motors (Holdings) Ltd	Dormant	Scotland	100	-
Ness Motors Ltd	Dormant	Scotland	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.

Arnold Clark Autocare Limited was liquidated on 30 June 2015.

The results of the Group for the year ended 31 December 2014 also include the trading of Cell AC7 of Harlequin Insurance PCC Limited ("the PCC"). The PCC consists of a number of separate cells all of which are independent of the others. Having reviewed the terms of the PCC, the Directors are of the opinion that the specified assets of the PCC are the only source of payment for specified liabilities of the PCC, neither the investors in other cells in the PCC nor the equity shareholders of the PCC itself have any rights or obligations related to the specified assets or to residual cash flows from those assets and, in substance, none of the returns from the specified assets can be used by the remaining investee and none of the liabilities of the PCC are payable from the assets of the remaining investee. Consequently, in accordance with IFRS 10 - Consolidated Financial Statements, Cell AC7 of the PCC has been treated as a deemed separate entity and its results consolidated into the financial statements of the Group as if it were a subsidiary.

Cell AC7 of the PCC was terminated on 10 December 2014.

7. Business combinations

Acquisition of Ness Motors Holdings Limited

On 6 February 2015 the Group acquired 100% of the share capital of Ness Motors Holdings Limited, an unlisted company based in Scotland, and in doing so acquired 100% of the share capital of Ness Motors Limited, which was also an unlisted company based in Scotland. The acquisition has been accounted for using the acquisition method of accounting.

	Fair value at acquisition £000
Intangibles	304
Property, plant and equipment	3,663
Vehicles and other inventories	5,177
Receivables	2,784
Cash and cash equivalents	305
Bank loans	(1,299)
Payables	(8,594)
Corporation tax	33
Deferred tax	(119)
	2,254
Goodwill	761
Consideration in cash	3,015
Cash and cash equivalents acquired	(305)
Net cash outflow from acquisition	2,710

The goodwill of £761,000 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. None of the goodwill recognised is expected to be deductible for income tax purposes.

The intangibles represent customer records, manufacturer franchise agreements and other intellectual property rights acquired as part of the transaction. 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. The intangibles are amortised over 5 years and the amortisation is not expected to be deductible for tax purposes.

The trade, assets and liabilities of Ness Motors Holdings Limited and Ness Motors Limited were immediately transferred to Arnold Clark Automobiles Limited and the companies have remained dormant since that date.

From the date of acquisition, the business acquired contributed £43,216,000 of revenue and £170,000 to profit before tax from continuing operations to the Group's results. If the combination had taken place at the beginning of the year, the contribution to revenue would have been £46,566,000 and to profit before tax from continuing operations would have been £100,000.

7. Business combinations (continued)

Acquisition of Hobin Group Limited

On 2 April 2015, the Group acquired 100% of the share capital of Hobin Group Limited, an unlisted company registered in England for a total consideration of £223, and in doing so acquired 100% of the share capital of Hobin of Preston Limited, which is also an unlisted company registered in England. The acquisition has been accounted for using the acquisition method of accounting.

	Fair value at acquisition £000
Intangibles	116
Property, plant and equipment	30
Vehicles and other inventories	967
Receivables	322
Bank overdrafts	(43)
Bank loans	(51)
Payables	(1,715)
Corporation tax	-
Deferred tax	(3)
	(377)
Goodwill	377
Consideration in cash	0
Bank overdrafts acquired	43
Net cash outflow from acquisition	43

The goodwill of £377,000 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. None of the goodwill recognised is expected to be deductible for income tax purposes.

The intangibles represent customer records, manufacturer franchise agreements and other intellectual property rights acquired as part of the transaction. 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. The intangibles are amortised over 5 years and the amortisation is not expected to be deductible for tax purposes.

The trade, assets and liabilities of Hobin Group Limited and Hobin of Preston Limited were immediately transferred to Arnold Clark Automobiles Limited and the companies have remained dormant since that date.

From the date of acquisition, the business acquired contributed £3,930,000 of revenue and a loss of £293,000 to the overall profit before tax from continuing operations. If the combination had taken place at the beginning of the year, the contribution to revenue would have been £6,322,000 and the loss before tax from continuing operations would have been £359,000.

7. Business combinations (continued)

Acquisition of Assure Alarms Limited

On 31 December 2015 the Group acquired 51% of the share capital of Assure Alarms Limited, an unlisted company registered in Scotland, and entered into an option to acquire the remaining share capital within the next 3 years. The Directors have considered the terms of the share option agreement and are satisfied that these are such that the transaction should be accounted for as a single transaction and, consequently, the element payable under the option has been included in non-current liabilities. The acquisition has been accounted for using the acquisition method of accounting.

	Fair value at acquisition £000
Intangibles	230
Property, plant and equipment	379
Vehicles and other inventories	91
Receivables	441
Cash and cash equivalents	27
Bank loans	(31)
Hire purchase contracts	(49)
Payables	(560)
Corporation tax	(84)
Deferred tax	(75)
	369
Goodwill	1,570
	1,939
Deferred consideration - due within 1 year	(56)
Deferred consideration - due on exercise of option	(952)
Consideration in cash	931
Cash and cash equivalents acquired	(27)
Net cash outflow from acquisition	904

The goodwill of £1,570,000 represents the excess of consideration paid over fair value of identifiable assets and liabilities and represents the expected benefits from the vertical integration with a significant supplier. None of the goodwill recognised is expected to be deductible for income tax purposes.

The intangibles represent customer records and other intellectual property rights acquired as part of the transaction. 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. The intangibles are amortised over 5 years and the amortisation is not expected to be deductible for tax purposes.

The deferred consideration is included in other creditors within trade and other payables.

The Company was acquired at the close of business on 31 December 2015 and therefore has had no impact on the Group's results for the year to 31 December 2015. If the combination had taken place at the beginning of the year, the contribution to revenue would have been £2,258,000 and to profit before tax from continuing operations would have been £297,000.

7. Business combinations (continued)

Other acquisitions

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

	Fair value at acquisition £000
Intangibles	353
Property, plant and equipment	4,133
Vehicles and other inventories	2,922
Receivables	18
Payables	(217)
Deferred taxation	(71)
	7,138
Goodwill	544
Consideration in cash	7,682

The goodwill of £544,000 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. The goodwill is expected to be deductible for tax purposes over the next 25 years in line with current tax legislation.

The intangibles represent customer records, manufacturer franchise agreements and other intellectual property rights acquired as part of the transaction. 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. The intangibles are amortised over 5 years and the amortisation is expected to be deductible for tax purposes.

From the date of acquisition, the businesses acquired contributed £22,729,000 of revenue and £245,000 to profit before tax from continuing operations to the Group's results. Because of 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.

7. Business combinations (continued)

Acquisition of Calterdon Limited

On 31 July 2014, the Group acquired 100% of the share capital of Calterdon Limited, an unlisted company registered in Scotland. The acquisition has been accounted for using the acquisition method of accounting.

	Fair value at acquisition £000
Intangibles	334
Property, plant and equipment	797
Vehicles and other inventories	2,883
Receivables	374
Bank overdrafts	(107)
Payables	(2,672)
Corporation tax	11
Deferred tax	(69)
	1,551
Goodwill	379
Consideration in cash	1,930
Bank overdrafts acquired	107
Net cash outflow from acquisition	2,037

The goodwill of £379,000 represented 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. None of the goodwill recognised is expected to be deductible for income tax purposes.

The intangibles represented customer records, manufacturer franchise agreements and other intellectual property rights acquired as part of the transaction. 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. The intangibles are amortised over 5 years and the amortisation is not expected to be deductible for tax purposes.

The trade, assets and liabilities of Calterdon Limited were immediately transferred to Harry Fairbairn Limited, a fellow subsidiary undertaking, and the company has remained dormant since that date.

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	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Assets measured at fair value:						
Financial assets (note 23)						
Certificates of deposit	-	-	87,543	86,722	87,543	86,722
Quoted equity shares	2,256	2,227	-	-	2,256	2,227
Cash equivalents (note 24)						
Certificates of deposit	-	-	2,450	11,515	2,450	11,515
	2,256	2,227	89,993	98,237	92,249	100,464

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 2015 and 31 December 2014 are being categorised as level 2.

There were no transfers between levels during 2015. 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:

	2015 £000	2014 £000
Distributing and retailing of motor vehicles	3,062,487	3,002,182
Servicing of motor vehicles	88,600	81,336
Hiring of motor vehicles	181,491	176,287
Insurance premiums receivable	7,177	6,217
Rental income from investment properties	4,280	4,201
Other	9,484	9,972
	3,353,519	3,280,195

All activities take place within the United Kingdom.

10. Other operating income

	2015 £000	2014 £000
Net gain on disposal of property, plant and equipment	3,004	2,901
Miscellaneous other income	211	1,032
	3,215	3,933

11. Finance costs

	2015 £000	2014 £000
Finance charges payable under hire purchase agreements	9,440	9,829
Other interest payable	3,147	2,770
Unwinding of discount and effect of changes in discount rate on provisions (note 27)	51	51
	12,638	12,650

12. Finance income

	2015 £000	2014 £000
Income from investments	644	90
Net gain / (loss) on financial assets at fair value through profit and loss	(84)	(133)
Bank interest receivable	741	718
Other interest receivable	-	264
	1,301	939

13. Operating profit

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

	2015 £000	2014 £000
Depreciation of property, plant and equipment	151,567	147,398
Amortisation of intangible assets	199	46
Costs of inventories recognised as an expense	2,639,441	2,539,100
Insurance claims made as insured	1,800	-
Insurance claims paid as insurer	1,098	739
Operating lease rentals - land and buildings	3,777	3,365
Gain on disposal of property, plant and equipment	3,004	2,901

14. Auditor's remuneration

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

	2015 £000	2014 £000
Fees payable to the company's auditor for the audit of the:		
Company's annual accounts	171	127
Subsidiaries' annual accounts	80	65
Total audit fees	251	192
Tax compliance	35	-
Other advisory	50	5
Total non-audit fees	85	5

15. Employee benefits expense

The analysis of the employee benefits expense is as follows:

	2015 £000	2014 £000
Wages and salaries	261,751	234,484
Social security costs	24,757	22,451
Pension costs	4,898	4,506
Total employee benefits expense	291,406	261,441

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

	2015 No.	2014 No.
Office and management	1,792	1,709
Sales	2,951	2,713
Technicians	5,144	4,762
	9,887	9,184

16. *Key management remuneration*

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

	2015 £000	2014 £000
Short-term employee benefits	11,172	11,052

The directors' emoluments were as follows:

	2015 £000	2014 £000
Emoluments	8,879	9,061
Emoluments of the highest paid director	3,479	3,378

17. Income tax

The major components of income tax expense are:

	2015 £000	2014 £000
Current income tax:		
Corporation tax charge	27,244	28,277
Adjustments in respect of corporation tax charge of previous years	331	2,505
Deferred tax:		
Relating to origination and reversal of temporary differences	(3,352)	(5,203)
Effect of decreased tax rate on opening liability	(1,214)	-
Income tax expense reported in the statement of profit or loss	23,009	25,579

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:

	2015 £000	2014 £000
Accounting profit before income tax	110,387	107,926
At UK corporation tax rate of 20.25% (2014 - 21.5%)	22,353	23,204
Tax effect of non-deductible expenses and non-taxable income	1,571	1,704
Effect of changes/differences in tax rates	(1,110)	270
Adjustments in respect of prior periods - current income tax	331	2,505
Adjustments in respect of prior periods - deferred tax	(136)	(2,104)
At the effective income tax rate of 20.8% (2014 - 23.7%)	23,009	25,579

17. Income tax (continued)

UK corporation tax rates were reduced to 21% with effect from 1 April 2014 and from 21% to 20% with effect from 1 April 2015. The UK Government has announced that it intends to further reduce the rate of UK corporation tax to 17% by 1 April 2020. The reductions to 19%, effective from 1 April 2017, and 18%, effective from 1 April 2020, were included in the Finance Act (No 2) 2015 that was substantively enacted on 26 October 2015. The further reduction to 17% announced in the recent budget has not been substantively enacted at the date of signing of the accounts and would not have a material effect on the Group's deferred tax charge or deferred tax liability.

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 2015 is 18.7% (2014 - 20.0%).

	Consolidated statement of financial position		Consolidated statement of profit or loss	
	2015 £000	2014 £000	2015 £000	2014 £000
Accelerated capital allowances	23,364	27,197	(3,900)	(5,786)
Other temporary differences	1,019	1,484	(666)	583
Deferred tax expense			(4,566)	(5,203)
Net deferred tax liability	24,383	28,681		
Reflected in the statement of financial position as follows:				
Deferred tax assets	(2,440)	(2,249)		
Deferred tax liabilities	26,823	30,930		
Net deferred tax liability	24,383	28,681		

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

	2015 £000	2014 £000
At 1 January	28,681	33,815
On acquisition of subsidiary undertakings / unincorporated businesses	268	69
Charged to the income statement	(4,566)	(5,203)
At 31 December	24,383	28,681

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

	Land and buildings £000	Leasehold property £000	Plant and equipment £000	Motor vehicles £000	Total £000
Cost:					
At 1 January 2014	334,440	26,526	67,354	667,988	1,096,308
Additions	28,809	1,021	8,145	503,653	541,628
Disposals	(3,141)	(24)	(7,249)	(446,553)	(456,967)
Transfer to investment properties	(7,000)	-	-	-	(7,000)
Acquisition of subsidiary undertakings	-	745	52	-	797
At 31 December 2014	353,108	28,268	68,302	725,088	1,174,766
Additions	39,645	2,344	15,085	538,575	595,649
Disposals	(7,103)	(113)	(3,838)	(511,258)	(522,312)
Transfer from investment properties	1,200	-	-	-	1,200
Transfers	2,721	(2,721)	-	-	-
Acquisition of subsidiary undertakings	6,912	324	819	150	8,205
At 31 December 2015	396,483	28,102	80,368	752,555	1,257,508
Depreciation:					
At 1 January 2014	45,406	4,350	50,988	193,734	294,478
Provided during the year	6,820	877	6,232	133,469	147,398
Disposals	(870)	(24)	(6,949)	(118,277)	(126,120)
At 31 December 2014	51,356	5,203	50,271	208,926	315,756
Provided during the year	6,779	939	7,311	136,538	151,567
Disposals	(1,124)	(113)	(3,524)	(130,782)	(135,543)
Transfers	1,595	(1,595)	-	-	-
At 31 December 2015	58,606	4,434	54,058	214,682	331,780
Net book value:					
At 31 December 2015	337,877	23,668	26,310	537,873	925,728
At 31 December 2014	301,752	23,065	18,031	516,162	859,010

The Group enters into arrangements to repurchase vehicles from customers at the end of the agreement, typically 1 to 4 years in the future. In certain instances, the repurchase price is determined at the time the agreement is entered into based on an estimate of the vehicle's future residual value. The actual value of the vehicles at the end of the lease contract, and therefore the proceeds that can be realised from eventual sale, can vary materially from these estimates. Where the repurchase price is agreed in advance the arrangement is treated as if it is a lease, the vehicle is transferred to fixed assets and the payments in advance are included in current liabilities. Annual reviews are undertaken to reappraise residual values and to recognise impairment write downs where necessary.

The Group owns motor vehicles, purchased by way of hire purchase agreements, with a cost of £691,576,000 (2014 - £658,664,000) and related accumulated depreciation of £199,735,000 (2014 - £194,510,000), which are held for use in operating leases. Additions during the year include £491,354,000 (2014 - £448,418,000) 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 2015 was an amount of £14,910,000 (2014 - £7,900,000) relating to expenditure for property in the course of construction.

19. Investment properties

	2015 £000	2014 £000
At 1 January	50,206	39,950
Additions	-	3,256
Transfers from property, plant and equipment	-	7,000
Transfers to property, plant and equipment	(1,200)	-
At 31 December	49,006	50,206

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.

The investment properties were valued by Colliers International on the basis of open market value in accordance with the RICS Valuation - Professional Standards (incorporating the International Valuation Standards) January 2014 prepared by The Royal Institute of Chartered Surveyors. The open market value of the properties at 31 December 2015 was £49,450,000 (2014 - £51,825,000). The Directors are satisfied that open market value approximates to fair value.

20. Intangible assets

	Goodwill £000	Other intangibles £000	Total £000
Cost:			
At 1 January 2014	5,281	-	5,281
Acquisition of subsidiary undertakings and unincorporated businesses	379	334	713
At 31 December 2014	5,660	334	5,994
Acquisition of subsidiary undertakings and unincorporated businesses	3,252	1,003	4,255
At 31 December 2015	8,912	1,337	10,249
Amortisation:			
At 1 January 2014	-	-	-
Provided during the year	-	46	46
At 31 December 2014	-	46	46
Provided during the year	-	199	199
At 31 December 2015	-	245	245
Net book value:			
At 31 December 2015	8,912	1,092	10,004
At 31 December 2014	5,660	288	5,948

The goodwill of £8,912,000 (2014 - £5,660,000) 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.

20. Intangible assets (continued)

For the purposes of impairment testing of goodwill, the Group recognises cash generating units ("CGUs") to be the individual branches or connected groups of branches that were purchased. 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 9.5% (2014 - 8.0%)

Growth rates are estimated using prudent long-term economic forecasts for the United Kingdom of 2.0% (2014 - 1.0%).

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

	2015 £000	2014 £000
Motor vehicles	325,455	298,413
Parts and accessories	17,397	14,040
Work in progress and other stocks	5,052	4,340
Consignment stocks	71,062	58,996
	418,966	375,789

At 31 December 2015, the Group held vehicles on sale or return with a wholesale value of £152,705,000 (2014 - £117,161,000) excluding Value Added Tax.

Included in stocks is £71,062,000 (2014 - £58,996,000) 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 £81,643,000 (2014 - £58,165,000) 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.

Included in motor vehicles is £28,398,000 (2014 - £25,764,000) that is pledged as security for the other loan (see note 28).

22. Trade and other receivables

	2015 £000	2014 £000
Trade receivables	67,527	57,545
Other receivables	19,380	13,115
Prepayments and accrued income	33,081	24,155
	119,988	94,815

At 31 December 2015, trade receivables with an initial carrying value of £987,000 (2014 - £735,000) were impaired and fully provided for. The movements in the provision were as follows:

	2015 £000	2014 £000
At 1 January	735	866
Charge of the year	1,727	1,191
Utilised	(410)	(512)
Unused amounts reversed	(1,065)	(810)
At 31 December	987	735

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
2015	56,417	7,229	1,527	2,354	67,527
2014	47,692	7,154	1,113	1,586	57,545

23. Financial assets

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

	2015 £000	2014 £000
Fair value through profit and loss		
Certificates of deposit	87,543	86,722
Listed equities	2,256	2,227
	89,799	88,949

23. Financial assets (continued)

Movements in financial assets during the year were as follows:

	2015 £000	2014 £000
At 1 January	88,949	77,282
Net additions	934	11,800
Net fair value gains / (losses) recognised in the profit and loss account	(84)	(133)
At 31 December	89,799	88,949

24. Cash and cash equivalents

	2015 £000	2014 £000
Cash at bank and in hand	119,577	94,787
Certificates of deposit	2,450	11,515
	122,027	106,302

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 2015 and 31 December 2014 is analysed at follows:

		Authorised		Allotted, called up and fully paid
	2015 No.	2014 No.	2015 £000	2014 £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

	2015 £000	2014 £000
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £3.75 per share (2014 - £1.50 per share)	3,747	1,499

The 2016 interim dividend of £2,498,000 was declared on 16 March 2016.

27. Provisions

	Commission clawback	
	2015	2014
	£000	£000
At 1 January	6,606	6,585
Amounts utilised in the period	(3,444)	(2,938)
Amounts charged to the profit and loss account	3,399	2,908
Unwinding of discount	51	51
At 31 December	6,612	6,606
Amounts included in current liabilities	3,036	3,042
Amounts included in non-current liabilities	3,576	3,564
	6,612	6,606

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% (2014 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £330,000 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

	2015	2014
	£000	£000
Current interest-bearing loans and borrowings:		
Other loans	18,024	20,823
Obligations under hire purchase agreements	250,469	251,092
	268,493	271,915
Non-current interest-bearing loans and borrowings:		
Obligations under hire purchase agreements	186,220	170,460
Total interest-bearing loans and borrowings	454,713	442,375

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

28. Financial liabilities (continued)

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	
	2015 £000	2014 £000	2015 £000	2014 £000
Amounts payable				
Within one year	257,634	258,143	250,469	251,092
In two to five years	189,947	174,067	186,220	170,460
	447,581	432,210	436,689	421,552
Less: future finance charges	(10,892)	(10,658)		
Present value of hire purchase obligations	436,689	421,552		
Current interest-bearing borrowings			250,469	251,092
Non-current interest-bearing borrowings			186,220	170,460
			436,689	421,552

29. Trade and other payables

	2015 £000	2014 £000
Trade payables	172,406	137,678
Other taxes and social security costs	8,947	12,813
Other creditors	57,790	31,136
Insurance liabilities	691	597
Accruals and deferred income	152,357	147,399
Consignment stock creditor	71,062	58,996
Buyback creditor	2,253	12,073
	465,506	400,692
Amounts included in current liabilities	458,991	395,254
Amounts included in non-current liabilities	6,515	5,438
	465,506	400,692

The amounts included in non-current liabilities are £952,000 included in other creditors in respect of deferred consideration due in respect of the acquisition of Assure Alarms Limited (2014 - £nil) and £5,563,000 included in accruals and deferred income in respect of rentals paid in advance (2014 - £5,438,000).

29. Trade and other payables (continued)

Insurance liabilities are analysed as follows:

	2015 £000	2014 £000
Claims outstanding	147	104
Claims outstanding - incurred but not reported	544	493
Total insurance liabilities	691	597

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

	2013 £000	2014 £000	2015 £000	Total £000
Estimate of ultimate claims cost:				
at end of accounting period	151	151	150	
one year later	449	528	-	
two years later	996	-	-	
Current estimate of cumulative claims	996	528	150	1,674
Cumulative payments to date	(714)	(304)	(40)	(1,058)
Liability recognised in the statement of financial position	282	224	110	616
Other technical provisions				75
				691

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 100 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:

	2015 £000	2014 £000
Within one year	3,295	3,239
After one year but not more than five years	8,839	8,963
More than five years	64,951	53,051
	77,085	65,253

30. Commitments and contingencies (continued)

Operating lease commitments - Group as a lessor

The Group has entered into operating leases as a 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 23 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	
	2015 £000	2014 £000	2015 £000	2014 £000
Within one year	103,688	102,856	3,631	3,897
After one year but not more than five years	101,727	100,025	12,964	13,415
More than five years	-	-	18,028	21,208
	205,415	202,881	34,623	38,520

Capital commitments

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

	2015 £000	2014 £000
Contracted but not provided for	7,855	5,634
Authorised but not contracted	27,384	31,919
	35,239	37,553

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

	2015 £000	2014 £000
Profit for the year	87,378	82,347
Adjustment for taxation	23,009	25,579
Adjustment for net financing costs	11,337	11,711
	121,724	119,637
Depreciation	151,567	147,398
Amortisation of intangibles	199	46
Profit on disposal of property, plant and equipment	(3,004)	(2,901)
Increase in receivables	(21,608)	(24,479)
Increase in inventories	(21,954)	(36,214)
Increase in trade and other payables	41,488	17,100
Increase in provisions	6	37
Unwinding of discount on provisions	(51)	(51)
Additions to motor vehicles	(538,575)	(503,653)
Proceeds from disposal of motor vehicles	383,333	331,046
Taxation paid	(29,618)	(23,155)
Interest received	741	982
Interest paid	(13,421)	(12,533)
Net cash flow from operating activities	70,827	13,260

32. Ultimate controlling related 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.

33. Standards issued but not yet effective

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Directors plan to adopt the new standard on the required effective date. During 2015, the Directors have performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional, reasonable and supportable information being made available to the Group in the future. Overall, the Directors expect there to be no significant impact on the Group's balance sheet and equity.

The Directors do not expect a significant impact on the Group's balance sheet or equity on applying the classification and measurement requirements of IFRS 9 and expect to continue measuring at fair value all financial assets currently held at fair value.

IFRS 9 requires the Group to record expected credit losses on all of its trade receivables, either on a 12-month or lifetime basis. The Directors expect to apply the simplified approach and record lifetime expected losses on all trade receivables. The Directors do not expect there to be any significant impact as the bad debt provision is already calculated in a similar manner.

The Group does not have any hedging transactions so will be unaffected by the changes in IFRS 9 in this respect.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, when the IASB finalises their amendments to defer the effective date of IFRS 15 by 1 year. Early adoption is permitted. The Directors plan to adopt the new standard on the required effective date using the full retrospective method. During 2015, the Directors performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the Directors are considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

The Group has little in the way of bundling of goods and services. Where this does happen, principally in respect of the provision of maintenance services as part of contract hire vehicles, the income streams are already unbundled at their respective fair values. The Group does not expect there to be significant changes to its revenue recognition as a result of the implementation of IFRS 15.

33. Standards issued but not yet effective (continued)

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

Other amendments

In addition to these amendments there have been amendments to the following standards:

- IFRS 7 Financial Instruments: Disclosures
- IAS 19 Employee Benefits

The Directors anticipate that the adoption of these standards will have no material impact on the financial statements of the Group.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases, which replaces the previous leases standard IAS 17 and several interpretations, and sets out new rules for lease accounting. For lessees, IFRS 16 will eliminate the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee will be required to recognise assets and liabilities for most leases and charge depreciation on those leased assets separately from interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income. For lessors, there will only be minor changes compared to IAS 17. The Group has yet to start its detailed analysis of the effects of IFRS 16. The effective date is 1 January 2019.

34. First-time adoption of IFRS

Group reconciliation of equity as at 1 January 2014 (date of transition to IFRS)

	Notes	UK GAAP £000	Remeasurements £000	IFRS £000
Assets				
Non-current assets				
Property, plant and equipment	E	793,078	8,752	801,830
Investment properties		39,950	-	39,950
Negative goodwill	A	(1,116)	1,116	-
Intangible assets		5,281	-	5,281
Investments	D	69,484	(69,474)	10
Deferred tax assets	F	-	2,820	2,820
		906,677	(56,786)	849,891
Current assets				
Inventories	E	356,810	(15,420)	341,390
Trade and other receivables		69,962	-	69,962
Financial assets	D	7,210	70,072	77,282
Cash at bank and in hand		111,564	-	111,564
		545,546	54,652	600,198
Total assets		1,452,223	(2,134)	1,450,089
Equity and liabilities				
Issued share capital		999	-	999
Other capital reserves	A	613	(612)	1
Revaluation reserve	C	1,589	(1,589)	-
Profit and loss account	A-G	594,201	(3,236)	590,965
Total equity		597,402	(5,437)	591,965
Non-current liabilities				
Interest bearing loans and borrowings		169,620	-	169,620
Provisions	G	6,663	(3,052)	3,611
Other liabilities		5,279	-	5,279
Deferred tax liabilities	F	26,700	9,935	36,635
		208,262	6,883	215,145
Current liabilities				
Interest-bearing loans and borrowings		237,502	-	237,502
Trade and other payables	E	386,811	(6,538)	380,273
Income tax payable		22,246	-	22,246
Provisions	G	-	2,958	2,958
		646,559	(3,580)	642,979
Total liabilities		854,821	3,303	858,124
Total equity and liabilities		1,452,223	(2,134)	1,450,089

34. First-time adoption of IFRS (continued)

Group reconciliation of equity as at 31 December 2014

	Notes	UK GAAP £000	Remeasurements £000	IFRS £000
Assets				
Non-current assets				
Property, plant and equipment	E	847,086	11,924	859,010
Investment properties	C	51,825	(1,619)	50,206
Negative goodwill	A	(1,098)	1,098	-
Intangible assets	A,B	4,458	1,490	5,948
Investments	D	78,759	(78,749)	10
Deferred tax assets	F	-	2,249	2,249
		981,030	(63,607)	917,423
Current assets				
Inventories	E	388,389	(12,600)	375,789
Trade and other receivables		94,815	-	94,815
Financial assets	D	21,283	67,666	88,949
Cash at bank and in hand	D	94,787	11,515	106,302
		599,274	66,581	665,855
Total assets		1,580,304	2,974	1,583,278
Equity and liabilities				
Issued share capital		999	-	999
Other capital reserves	A	613	(612)	1
Revaluation reserve	C	2,632	(2,632)	-
Profit and loss account	A-G	674,306	(2,493)	671,813
Total equity		678,550	(5,737)	672,813
Non-current liabilities				
Interest bearing loans and borrowings		170,460	-	170,460
Provisions		6,698	(3,134)	3,564
Other liabilities		5,438	-	5,438
Deferred tax liabilities	B,C,F	21,599	9,331	30,930
		204,195	6,197	210,392
Current liabilities				
Interest-bearing loans and borrowings		271,915	-	271,915
Trade and other payables	E	395,782	(528)	395,254
Income tax payable		29,862	-	29,862
Provisions	G	-	3,042	3,042
		697,559	2,514	700,073
Total liabilities		901,754	8,711	910,465
Total equity and liabilities		1,580,304	2,974	1,583,278

34. First-time adoption of IFRS (continued)

Group reconciliation of profit or loss and total comprehensive income for the year ended 31 December 2014

	Notes	UK GAAP £000	Remeasurements £000	IFRS £000
Revenue	E,G,H	3,265,412	14,783	3,280,195
Cost of sales	C,E,H	(2,767,415)	(15,327)	(2,782,742)
Gross profit		497,997	(544)	497,453
Administrative and distribution expenses	A,B	(383,154)	1,405	(381,749)
Other operating income	D	3,965	(32)	3,933
Operating profit		118,808	829	119,637
Finance costs	G	(12,599)	(51)	(12,650)
Finance income	D	1,073	(134)	939
Profit before tax from continuing operations		107,282	644	107,926
Income tax expense	F	(25,678)	99	(25,579)
Profit for the year from continuing operations		81,604	743	82,347

Notes to the reconciliation of equity as at 1 January 2014 and 31 December 2014 and total comprehensive income for the year ended 31 December 2014

A Negative goodwill

Under UK GAAP the negative goodwill arising on the acquisition of the share capital of Glasgow Training Group (Motor Trade) Limited was initially credited to the statement of financial position and the subsequent amortisation credited to the statement of profit or loss and total comprehensive income in the periods that the associated non-financial assets were recovered through use or sale. In accordance with the requirements of IFRS 3, the negative goodwill of £1,116,000 at 1 January 2014 has been transferred to the profit and loss reserve. The credit to the statement of profit or loss and total comprehensive income of £18,000 in the year ended 31 December 2014 has been reversed.

Prior to the adoption of FRS 10, negative goodwill arising on acquisition had been transferred to the capital reserve in accordance with the previous standard, SSAP 22. On adoption of IFRS, the capital reserve has been transferred to the profit and loss reserve. The effect is to decrease the capital reserve by £612,000 at 1 January 2014 and 31 December 2014 and to increase the profit and loss reserve by the same figure.

B Goodwill

Goodwill was previously recognised in the statement of financial position and amortised over a period of 5 years. The Directors have elected to use the exemption in IFRS 1 not to apply IFRS 3 retrospectively in respect of past business combinations. The financial statements prepared under UK GAAP for the year-ended 31 December 2013 included goodwill with a cost of £19,286,000 and accumulated amortisation of £14,005,000. The amortised goodwill figure of £5,281,000 at 1 January 2014 is deemed to be the carrying value following transition to IFRS and the subsequent amortisation of goodwill of £1,469,000, charged to the profit or loss and total comprehensive income in the year ended 31 December 2014, has been reversed.

The goodwill previously recognised on the acquisition of Calterdon Limited on 31 July 2014, has been recalculated in accordance with IFRS 3 and IAS 38 and, as a result of the recognition of intangible assets in respect of customer records, franchise agreements and other intellectual property rights of £334,000 and the associated liability for deferred taxation of £67,000, the goodwill on acquisition was reduced by £238,000. The amortisation of the intangible asset of £46,000 has been charged to the statement of profit or loss and total comprehensive income for the year ended 31 December 2014.

34. First-time adoption of IFRS (continued)

C Investment properties

Under UK GAAP the investments properties were held at market value and revalued on an annual basis. The Directors have elected to use the cost model included in IAS40 and to take advantage of the exemption included in IFRS 1 to use the fair value at 1 January 2014 as the deemed cost. At 31 December 2014, the investment properties were revalued to £51,825,000 under UK GAAP and, as a result, £576,000 in respect of a previous reversal of an impairment was credited to cost of sales and a further sum of £1,043,000 was credited to the revaluation reserve; both of these transactions have been reversed on adoption of IFRS. The balance of the revaluation reserve at 1 January 2014 of £1,589,000 has been transferred to the profit and loss reserve.

The historic cost of the investment properties at 1 January 2014 was £40,516,000. Deferred tax of £318,000 has been recognised on the difference between the historic cost and the deemed cost of the investment properties.

D Financial assets

The Group's investments in certificates of deposit and listed equities were previously carried at historic cost; under IFRS these are now stated at their fair value. The amendment resulted in an increase in the carrying values of these investments at £598,000 at 1 January 2014 and £432,000 at 31 December 2014. The finance income for the year ended 31 December 2014 has reduced by £134,000 as a result of the movement in fair values and the gain on disposal of £32,000 included in other operating income has also been reversed.

In addition to this adjustment, the Directors have also elected to show all certificates of deposit with a maturity period of 3 months or less at the date of acquisition as cash equivalents in accordance with IAS 7. This resulted in investments being reduced and cash and cash equivalents being increased by £11,515,000 at 31 December 2014. There was no adjustment to the statement of financial position at 1 January 2014 due to the maturity profile of the investments.

Having reviewed the nature of the investments as part of the conversion process, the Directors are of the opinion that the remaining financial assets are all current in nature and the balances have been recategorised accordingly. The value of these assets at 1 January 2014 was £69,474,000 and at 31 December 2014 was £78,749,000.

E Inventories

The Group enters into arrangements whereby it sells vehicles but agrees to repurchase those vehicles from the customer at a pre-determined price at the end of the agreement, typically 1 to 4 years in the future. Under UK GAAP, the sales were accounted for as revenue and the liability for the repurchase was recognised as a liability and a corresponding asset was included in inventories. Under IFRS, this transaction is deemed to be a lease and, accordingly, the vehicle is transferred to fixed assets and the payments in advance are included as a liability in trade and other payables. This resulted in fixed assets increasing by £8,752,000 at 1 January 2014 and by £11,924,000 at 31 December 2014, inventories decreasing by £5,840,000 at 1 January 2014 and by £7,293,000 at 31 December 2014 and the buyback liabilities increasing by £3,042,000 at 1 January 2014 and by £4,779,000 at 31 December 2014. The net effect on reported revenue for the year ended 2014 was a decrease of by £8,063,000 and cost of sales was decreased by £8,045,000.

In addition to this adjustment in accordance with IAS 2 the bonuses received from manufacturers in respect of unsold inventories, previously included as deferred income under UK GAAP, have been offset against the cost of the inventories. The effect is to reduce inventories and liabilities by £9,580,000 as at 1 January 2014 and by £5,307,000 as at 31 December 2014.

34. First-time adoption of IFRS (continued)

F Deferred taxation

In addition to the incidental adjustments noted above, deferred tax was adjusted in respect of rolled over gains on property transactions, Industrial Buildings Allowances claimed historically and in respect of other sundry differences between FRS 19 and IAS 12. The total effect on deferred tax of all of the adjustments, including those noted above, was to increase the net liability at 1 January 2014 by £7,115,000 and at 31 December 2014 by £7,082,000. The deferred tax charge for 2014 decreased by £99,000.

The deferred tax assets resulting from the operations in Malta have been transferred from non-current liabilities to non-current assets as there is no right of set off of the future tax against the future tax liabilities of the rest of the Group. The deferred tax assets reanalysed totalled £2,820,000 at 1 January 2014 and £2,249,000 at 31 December 2014.

G Provisions

The provision made in respect of commission clawbacks was not previously discounted as the effect on the provision was deemed to be immaterial. On transition to IFRS the provision has been discounted resulting in a decrease of £94,000 at 1 January and of £92,000 at 31 December 2014. The turnover recognised in 2014 increased by £49,000 as a result of the application of the discount rate to the provisions and the finance costs increased by £51,000 as a result of the unwinding of the discount.

The provision has also been split between the balances expected to be utilised within the next 12 months and those expected to be utilised after more than 12 months. The amount transferred from non-current liabilities to current liabilities was £2,958,000 at 1 January 2014 and £3,042,000 at 31 December 2014.

H Gain on disposal of motor vehicles held for use in operating leases

Following conversion to IFRS, the Directors are of the opinion that the disposal of motor vehicles held for use in operating leases at the end of the associated lease is an integral part of the vehicle hire business and accordingly these have been treated as operating items. Turnover and cost of sales for the year ended 31 December 2014 have been increased by £22,797,000 as a result of sales outwith the Group and the cash flows from the purchase and disposal of the motor vehicles have been reclassified as operating cash flows in the consolidated statement of cash flows.

Company statement of financial position

at 31 December 2015

Arnold Clark Automobiles Limited

	Notes	2015 £000	2014 £000
Assets			
Non-current assets			
Property, plant and equipment	A5	382,312	352,064
Investment properties	A6	49,006	50,206
Intangible assets	A7	7,343	4,947
Investments	A8	65,482	62,134
		504,143	469,351
Current assets			
Inventories	A9	363,459	316,050
Trade and other receivables	A10	112,575	88,446
Financial assets	A11	31,643	12,024
Cash and cash equivalents	A12	79,681	58,766
		587,358	475,286
Total assets		1,091,501	944,637
Equity and liabilities			
Issued share capital	A13	999	999
Capital redemption reserve		1	1
Profit and loss account		616,870	543,320
Total equity		617,870	544,320
Non-current liabilities			
Provisions	A15	3,576	3,560
Trade and other payables	A18	952	-
Deferred tax liabilities	A16	11,856	12,923
		16,384	16,483
Current liabilities			
Interest-bearing loans and borrowings	A17	17,993	20,823
Trade and other payables	A18	422,542	345,259
Income tax payable		13,676	14,710
Provisions	A15	3,036	3,042
		457,247	383,834
Total liabilities		473,631	400,317
Total equity and liabilities		1,091,501	944,637

Approved by the Board on 22 APRIL 2016

E Hawthorne
Managing Director

K J McLean
Finance Director

Company statement of changes in equity

for the year ended 31 December 2015

Arnold Clark Automobiles Limited

	Share Capital	Other capital reserves	Revaluation reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000
As at 1 January 2014	999	2,647	1,589	474,788	480,023
Restatement for first-time adoption of FRS101	-	(2,646)	(1,589)	(1,748)	(5,983)
As 1 January 2014 (restated)	999	1	-	473,040	474,040
Total comprehensive income	-	-	-	71,779	71,779
Dividends to shareholders	-	-	-	(1,499)	(1,499)
As at 31 December 2014	999	1	-	543,320	544,320
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

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 12 to 55.

The separate entity financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) as issued September 2015. The Company has early adopted this revision to FRS 101 as permitted under the standard. 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 2015. The financial statements are prepared in Sterling and are rounded to the nearest thousand pounds (£000).

A2. Summary of significant accounting policies

A2.1 Basis of preparation

The Company has transitioned to FRS 101 from previously extant UK Generally Accepted Accounting Practice for all periods presented. Transition tables showing all material adjustments are disclosed in note A24.

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 (continued)

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, which 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. In accordance with IFRS 1 - First-time adoption, the market value of the investment properties held at 1 January 2014, the date of transition, has been used as the deemed cost of the investment properties held at that date.

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)

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.

Notes to the company financial statements

for the year ended 31 December 2015

Arnold Clark Automobiles Limited

A2.3 Transition to FRS 101

For all periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with previously extant United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101.

Accordingly, the Company has prepared individual financial statements which comply with FRS 101 applicable for periods beginning on or after 1 January 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

In preparing these financial statements, the Company has started from an opening balance sheet as at 1 January 2014, the Company's date of transition to FRS101, and made those changes in accounting policies and other restatements required for the first-time adoption of FRS 101. As such, this note explains the principal adjustments made by the Company in restating its balance sheet as at 1 January 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 December 2014.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1 - First-time Adoption of International Financial Reporting Standards.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Company has applied the following exemptions:

IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS, or of interests in associates and joint ventures that occurred before 1 January 2014. Use of this exemption means that the UK GAAP carrying amounts of assets and liabilities, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The Company did not recognise or exclude any previously recognised amounts as a result of IFRS recognition requirements.

IFRS 1 also requires that the UK GAAP carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets). In accordance with IFRS 1, the Company has tested goodwill for impairment at the date of transition to IFRS. No goodwill impairment was deemed necessary at 1 January 2014.

The Company's investment properties, were carried in the statement of financial position prepared in accordance with UK GAAP on the basis of valuations performed on 31 December 2013. The Company has elected to regard those values as deemed cost at the date of the revaluation since they were broadly comparable to fair value.

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 9.5% (2014 - 8.0%)

Growth rates are estimated using prudent long term economic forecasts for the United Kingdom of 2.0% (2014 - 1.0%).

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 £77,297,000 (2014 - £71,779,000).

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 2015	315,105	27,360	58,502	59,886	460,853
Additions	31,281	2,344	13,417	40,777	87,819
Disposals	(5,413)	(113)	(3,262)	(46,925)	(55,713)
Transfers	2,721	(2,721)	-	-	-
Transfer from subsidiary undertakings	6,753	324	748	-	7,825
At 31 December 2015	350,447	27,194	69,405	53,738	500,784
Depreciation:					
At 1 January 2015	47,484	4,769	43,033	13,503	108,789
Provided during the year	6,109	923	6,297	15,345	28,674
Disposals	(894)	(113)	(2,974)	(15,010)	(18,991)
Transfers	1,595	(1,595)	-	-	-
	54,294	3,984	46,356	13,838	118,472
Net book value:					
At 31 December 2015	296,153	23,210	23,049	39,900	382,312
At 31 December 2014	267,621	22,591	15,469	46,383	352,064

Assets under construction

Included in property, plant and equipment at 31 December 2015 was an amount of £14,883,000 (2014 - £6,140,000) relating to expenditure for property in the course of construction.

A6. Investment properties

	£000
At 1 January 2015	50,206
Transfers to property, plant and equipment	(1,200)
At 31 December 2015	49,006

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.

The investment properties were valued by Colliers International on the basis of open market value in accordance with the RICS Valuation - Professional Standards (incorporating the International Valuation Standards) January 2014 prepared by The Royal Institute of Chartered Surveyors. The fair value of the properties at 31 December 2015 was £49,450,000 (2014 - £51,825,000). The Directors are satisfied that open market value approximates to fair value.

A7. Intangible assets

	Goodwill £000	Other intangibles £000	Total £000
Cost:			
At 1 January 2015	4,947	-	4,947
Acquisition of unincorporated businesses	543	353	896
Transfer from investments on divisionalisation of subsidiaries	1,138	420	1,558
At 31 December 2015	6,628	773	7,401
Amortisation:			
At 1 January 2015	-	-	-
Provided in the year	-	58	58
At 31 December 2015	-	58	58
Net book value:			
At 31 December 2015	6,628	715	7,343
At 31 December 2014	4,947	-	4,947

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 Company recognises cash generating units ("CGUs") to be individual branches or connected groups of branches. 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 9.5% (2014 - 8.0%)

Growth rates are estimated using long-term economic forecasts for the United Kingdom of 2.0% (2014 - 1.0%).

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:			
At 1 January 2015	62,124	10	62,134
Additions	4,954	-	4,954
Disposals	(48)	-	(48)
Transfer to intangibles on divisionalisation of subsidiaries	(1,558)	-	(1,558)
At 31 December 2015	65,472	10	65,482

Details of the additions to the investment in subsidiaries are provided in note 7 and a full list of subsidiary undertakings is provided in note 6.

A9. Inventories

	2015 £000	2014 £000
Motor vehicles	279,333	244,878
Parts and accessories	16,620	13,602
Work in progress and other stocks	4,967	4,260
Consignment stocks	62,539	53,310
	363,459	316,050

At 31 December 2015, the Company held vehicles on sale or return with a wholesale value of £144,182,000 (2014 - £111,475,000) excluding Value Added Tax.

Included in stocks is £62,539,000 (2014 - £53,310,000) 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 £81,643,000 (2014 - £58,165,000) 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.

Included in motor vehicles is £28,398,000 (2014 - £25,764,000) that is pledged as security for the other loan (see note A17).

A10. Trade and other receivables

	2015 £000	2014 £000
Trade receivables	50,125	40,032
Other receivables	18,725	12,399
Prepayments and accrued income	28,097	20,213
Amounts due from group undertakings	15,628	15,802
	112,575	88,446

A11. Financial assets

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

	2015 £000	2014 £000
Fair value through profit and loss		
Certificates of deposit	29,387	9,797
Listed equities	2,256	2,227
	31,643	12,024

Movements in financial assets during the year were as follows:

	£000
At 1 January 2015	12,024
Net additions	19,700
Net fair value gains / (losses) recognised in the profit and loss account	(81)
At 31 December 2015	31,643

A12. Cash and cash equivalents

	2015 £000	2014 £000
Cash at bank and in hand	77,231	47,250
Certificates of deposit	2,450	11,516
	79,681	58,766

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 2015 and 31 December 2014 is analysed at follows:

	Authorised		Allotted, called up and fully paid	
	2015 No.	2014 No.	2015 £000	2014 £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

	2015 £000	2014 £000
Cash dividends on ordinary shares declared and paid:		
Interim dividend: £3.75 per share (2014 - £1.50 per share)	3,747	1,499

The 2016 interim dividend of £2,498,000 was declared on 16 March 2016.

A15. Provisions

	Commission clawback	
	2015 £000	2014 £000
At 1 January	6,602	6,566
Amounts utilised in the period	(3,443)	(2,937)
Amounts charged to the profit and loss account	3,402	2,922
Unwinding of discount	51	51
At 31 December	6,612	6,602
Amounts included in current liabilities	3,036	3,042
Amounts included in non-current liabilities	3,576	3,560
	6,612	6,602

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% (2014 - 1%).

A 5% increase in the expected percentage of agreements resulting in a clawback would increase the provision by £330,000 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 18.7% (2014 - 20%).

	2015 £000	2014 £000
Accelerated capital allowances	8,526	9,231
Other timing differences	3,330	3,692
Deferred tax liability	11,856	12,923

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:

	2015 £000	2014 £000
Other loans	17,993	20,823

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

	2015 £000	2014 £000
Trade payables	146,914	112,249
Other taxes and social security costs	9,977	15,359
Other creditors	39,754	14,481
Accruals and deferred income	85,302	79,793
Consignment stock creditor	62,539	53,310
Buyback creditor	2,253	12,073
Amounts due to group undertakings	76,755	57,994
	423,494	345,259
Amounts included in current liabilities	422,542	345,259
Amounts included in non-current liabilities	952	-
	423,494	345,259

The Company enters into arrangements whereby it agrees to repurchase vehicles from customers at the end of the agreement, typically 1 to 4 years in the future. In certain instances, the repurchase price is determined at the time the agreement is entered into based on an estimate of the vehicle's future residual value. The actual value of the vehicles at the end of the lease contract, and therefore the proceeds that can be realised from eventual sale, can vary materially from these estimates. Where the repurchase price is agreed in advance the arrangement is treated as if it is a lease, the vehicle is transferred to property, plant and equipment and the payments in advance are included in the buyback creditor noted above. Annual reviews are undertaken to reappraise residual values and to recognise impairment write downs where necessary.

A19. Operating lease commitments

Company as a lesee

The Company has entered into operating leases in respect of land and buildings, with lease terms from 1 to 100 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:

	2015 £000	2014 £000
Within one year	2,998	2,932
After one year but not more than five years	8,155	8,163
More than five years	64,471	52,557
	75,624	63,652

Company as a lessor

The Company has entered into operating leases as lessor in respect of investment properties on lease terms of up to 23 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:

	2015 £000	2014 £000
Within one year	3,631	3,897
After one year but not more than five years	12,964	13,415
More than five years	18,028	21,208
	34,623	38,520

A20. Capital commitments

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

	2015 £000	2014 £000
Contracted but not provided for	7,217	3,766
Authorised but not contracted	26,737	26,741
	33,954	30,507

A21. Other financial commitments

In addition to buy back vehicles referred to in notes A18, the Company has undertaken to repurchase certain motor vehicles throughout 2016. 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 2015, the Value Added Tax repayable to other members of the group registration amounted to £653,000 (2014 - £3,001,000).

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 2015, the other companies included in the guarantee had net funds of £41,876,000 (2014 - £46,917,000) due from The Royal Bank of Scotland plc.

A23. Directors emoluments

The directors' emoluments were as follows:

	2015 £000	2014 £000
Emoluments	8,319	8,865
Emoluments of the highest paid director	3,479	3,378

Arnold Clark Automobiles Limited

A24. First-time adoption of FRS 101

Company reconciliation of equity as at 1 January 2014 (date of transition to FRS 101)

	Notes	UK GAAP £000	Remeasurements £000	FRS 101 £000
Assets				
Non-current assets				
Property, plant and equipment	D	328,151	8,752	336,903
Investment properties		39,950	-	39,950
Intangible assets		4,947	-	4,947
Investments	C	63,691	(3,276)	60,415
		436,739	5,476	442,215
Current assets				
Inventories	D	309,591	(14,474)	295,117
Trade and other receivables		60,015	-	60,015
Financial assets	C	5,251	4,294	9,545
Cash at bank and in hand		58,737	-	58,737
		433,594	(10,180)	423,414
Total assets		870,333	(4,704)	865,629
Equity and liabilities				
Issued share capital		999	-	999
Other capital reserves	A	2,647	(2,646)	1
Revaluation reserve	B	1,589	(1,589)	-
Profit and loss account	A-F	474,788	(1,748)	473,040
Total equity		480,023	(5,983)	474,040
Non-current liabilities				
Provisions	F	6,659	(3,051)	3,608
Deferred tax liabilities	B, E	5,737	6,965	12,702
		12,396	3,914	16,310
Current liabilities				
Interest-bearing loans and borrowings		23,787	-	23,787
Trade and other payables	D	341,261	(5,592)	335,669
Income tax payable		12,866	-	12,866
Provisions	F	-	2,957	2,957
		377,914	(2,635)	375,279
Total liabilities		390,310	1,279	391,589
Total equity and liabilities		870,333	(4,704)	865,629

A24. First-time adoption of FRS 101 (continued)

Company reconciliation of equity as at 31 December 2014

	Notes	UK GAAP £000	Remeasurements £000	FRS 101 £000
Assets				
Non-current assets				
Property, plant and equipment	D	340,139	11,925	352,064
Investment properties	B	51,825	(1,619)	50,206
Intangible assets	A	3,503	1,444	4,947
Investments	C	63,539	(1,405)	62,134
		459,006	10,345	469,351
Current assets				
Inventories	D	327,809	(11,759)	316,050
Trade and other receivables		88,446	-	88,446
Financial assets	C	21,283	(9,259)	12,024
Cash at bank and in hand	C	47,250	11,516	58,766
		484,788	(9,502)	475,286
Total assets		943,794	843	944,637
Equity and liabilities				
Issued share capital		999	-	999
Other capital reserves	A	2,647	(2,646)	1
Revaluation reserve	B	2,632	(2,632)	-
Profit and loss account	A-F	544,301	(981)	543,320
Total equity		550,579	(6,259)	544,320
Non-current liabilities				
Provisions	F	6,694	(3,134)	3,560
Deferred tax liabilities	B, E	6,044	6,879	12,923
		12,738	3,745	16,483
Current liabilities				
Interest-bearing loans and borrowings		20,823	-	20,823
Trade and other payables	D	344,944	315	345,259
Income tax payable		14,710	-	14,710
Provisions	F	-	3,042	3,042
		380,477	3,357	383,834
Total liabilities		393,215	7,102	400,317
Total equity and liabilities		943,794	843	944,637

A24. First-time adoption of FRS 101 (continued)

Notes to the reconciliation of equity as at 1 January 2014 and 31 December 2014

A Goodwill

Goodwill was previously recognised in the statement of financial position and amortised over a period of 5 years. The Directors have elected to use the exemption in IFRS 1 not to apply IFRS 3 retrospectively in respect of past business combinations. The amortised goodwill figure at 1 January 2014 is deemed to be the carrying value following transition to FRS 101 and the amortisation of goodwill of £1,444,000, charged to the profit or loss and total comprehensive income in the year ended 31 December 2014, has been reversed.

Prior to the adoption of FRS 10, negative goodwill arising on acquisition had been transferred to the capital reserve in accordance with the previous standard, SSAP 22. On adoption of FRS 101, the capital reserve has been transferred to the profit and loss reserve. The effect is to decrease the capital reserve by £2,646,000 at 1 January 2014 and 31 December 2014 and to increase the profit and loss reserve by the same figure.

B Investment properties

Under UK GAAP the investment properties were held at market value and revalued on an annual basis. The Directors have elected to use the cost model included in IAS40 and to take advantage of the exemption included in IFRS 1 to use the fair value at 1 January 2014 as the deemed cost. At 31 December 2014, the investment properties were revalued to £51,825,000 under UK GAAP and, as a result, £576,000 in respect of a previous reversal of an impairment was credited to cost of sales and a further sum of £1,043,000 was credited to the revaluation reserve; both of these transactions have been reversed on adoption of FRS 101. The balance of the revaluation reserve at 1 January 2014 of £1,589,000 has been transferred to the profit and loss reserve.

The historic cost of the investment properties at 1 January 2014 was £40,516,000. Deferred tax of £318,000 has been recognised on the difference between the historic cost and the deemed cost of the investment properties.

C Financial assets

The Company's investments in certificates of deposit and listed equities were previously carried at historic cost, under FRS 101 these are now stated at their fair value. The amendment resulted in an increase in the carrying values of these investments of £1,018,000 at 1 January 2014 and £852,000 at 31 December 2014.

In addition to this adjustment, the Directors have also elected to show all certificates of deposit with a maturity period of 3 months or less at the date of acquisition as cash equivalents in accordance with IAS 7. This resulted in investments being reduced and cash and cash equivalents being increased by £11,516,000 at 31 December 2014. There was no adjustment to the statement of financial position at 1 January 2014 due to the maturity profile of the investments.

Having reviewed the nature of the investments as part of the conversion process, the Directors are of the opinion that the investments are all current in nature and the balances of £4,203,000 at 1 January 2014 and £2,227,000 at 31 Decemeber 2014 have been recategorised accordingly.

A24. First-time adoption of FRS 101 (continued)

D Inventories

The Company enters into arrangements whereby it sells vehicles but agrees to repurchase those vehicles from the customer at a pre-determined price at the end of the agreement, typically 1 to 4 years in the future. Under UK GAAP, the sales were accounted for as revenue and the liability for the repurchase was recognised as a liability and a corresponding asset was included in inventories. Under IFRS, this transaction is deemed to be a leasing transaction and accordingly the vehicle is transferred to fixed assets and the payments in advance are included as a liability in trade and other payables. This resulted in fixed assets increasing by £8,752,000 at 1 January 2014 and by £11,924,000 at 31 December 2014, inventories decreasing by £5,840,000 at 1 January 2014 and by £7,293,000 at 31 December 2014 and the buyback liabilities increasing by £3,042,000 at 1 January 2014 and by £4,781,000 at 31 December 2014. The net effect of on reported revenue for the year ended 2014 was a decrease of by £8,063,000 and cost of sales was decreased by £8,045,000.

In addition to this adjustment in accordance with IAS 2 the bonuses received from manufacturers in respect of unsold stocks, previously included as deferred income under UK GAAP, have been offset against the cost of the inventories. The effect is to reduce inventories and liabilities by £8,634,000 as at 1 January 2014 and by £4,466,000 as at 31 December 2014.

E Deferred taxation

In addition to the incidental adjustments noted above deferred tax was adjusted in respect of rolled over gains on property transactions, Industrial Buildings Allowances claimed historically and in respect of other sundry differences between FRS 19 and IAS 12. The total effect on deferred tax of all of the adjustments, including those noted above, was to increase the net liability at 1 January 2014 by £6,965,000 and at 31 December 2014 by £6,879,000.

F Provisions

The provisions made in respect of commission clawbacks were not previously discounted as the effect on the provision was deemed to be immaterial. On transition to FRS 101, the provision has been discounted resulting in a decrease of £94,000 at 1 January 2014 and of £92,000 at 31 December 2014.

The provision has also been split between the balances expected to be utilised within the next 12 months and those expected to be utilised after more than 12 months. The amounts transferred from non-current to current liabilities was £2,957,000 at 1 January 2014 and £3,042,000 at 31 December 2014.