Clipper Logistics plc
Annual Report and Accounts 2014
Clipper

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# Strategic Report

# Who We Are

Clipper is a retail logistics specialist, which provides value-added, consultancy-led services to its blue chip client base. Clipper is a UK leader in its markets, with a long-standing customer base in:

- **e-fulfilment**
- **fashion**
- **high-value logistics**

A profitable and cash generative commercial vehicles business complements the Group's logistics activities.

# At a Glance

The Group is a retail logistics specialist, providing value-added services to its blue chip customer base.

It is a UK market leader in e-commerce (including e-fulfilment and returns management), fashion, and high value logistics. A consultancy-led approach is taken with both existing and prospective clients to develop innovative solutions.

A platform has been established in Germany to enable the Group to benefit from anticipated future growth in European online retailing, and support the ambitions of UK customers who plan to expand into Europe.

A profitable and cash generative commercial vehicles business complements the Group's logistics activities.

The Group operates from 38 locations comprising over 5 million square feet. It now has over 2,500 employees, excluding agency staff.

The Group operates from
**38 locations**
comprising over
**5 million sq. ft.**
and now has over
**2,500 employees**

# Group Structure

### Composition of the Group

Clipper Logistics plc ("Clipper" or the "Company") provides value-added logistics services in the UK.

The Company has the following wholly owned subsidiaries:

- Clipper Geist Logistics GmbH & Co. KG, which provides logistics services in Germany;
- Northern Commercials (Mirfield) Ltd ("Northern Commercials"), which is a commercial vehicle operation; and
- Genesis Specialised Product Packing Ltd ("Genesis"), which provides an eBay store offering to enable Clipper to assist its retail customers with the sale of excess stock.

The above entities, along with a number of dormant subsidiaries, comprise the "Group".

### Restructure ahead of IPO

Prior to the flotation of Clipper Logistics plc on the London Stock Exchange, it and its former parent company, Clipper Group Holdings Ltd, undertook a restructuring exercise in preparation for the IPO.

**The key elements of this restructuring were as follows:**

- Clipper Logistics plc formerly traded as Clipper Logistics Group Ltd, and was a wholly owned subsidiary of Clipper Group Holdings Ltd;
- In April 2014, Clipper Logistics Group Ltd acquired its fellow subsidiaries from Clipper Group Holdings Ltd which comprised 100 per cent of the issued share capital of Northern Commercials (Mirfield) Ltd and Genesis Specialised Product Packing Ltd, and 75% of Clipper Geist Logistics GmbH & Co. KG; with the remaining 25% being acquired from the minority shareholder, also in April;
- On 15 May 2014, Clipper Logistics Group Ltd was re-registered as a public limited company, with the name Clipper Logistics plc.

### Reporting Segments

**The results of the Group are reported in the following segments:**

- Value-added logistics services, comprising:
  - E-fulfilment logistics, including returns management services;
  - Non e-fulfilment logistics, including the results of the Group's German operations;
  - Central logistics overheads, being those costs of the business which are not allocable in a meaningful way to the above operating segments, including directorate, advertising and promotion, accounting and IT, and the solutions development team;
- Commercial vehicles; and
- Head office costs, representing the costs of the Chairman, CFO, Non-Executive Directors and plc compliance costs.

# 2014 Highlights

## Operational Highlights for the Year to 30 April 2014:

- Significant new contracts with customers including SuperGroup, ASOS and Antler;
- Strong growth in retail e-commerce market driving revenues with existing customers, as well as providing opportunities for new contract wins;
- New "Boomerang" brand introduced to focus on value-added returns management services;
- Acquisition of R. Geist Spedition GmbH & Co. KG completed in October 2013 to enhance operations in Germany, providing a platform to benefit from growth in European online retailing and support UK customers' ambitions to expand into Europe; and
- Integration of Northern Commercials (Mirfield) Ltd and Stormont Truck and Van Ltd in August 2013 realised cost reductions and created a platform for market share and profit growth

## Post Year End Highlights:

- Clipper Logistics plc admitted to the premium segment of the London Stock Exchange on 4 June 2014; and
- Strong business pipeline ensures organic growth within the value-added logistics services division will continue into the 2015 financial year.

# 2014 Highlights

continued

## 2014 Financial Highlights:

**Group revenue increased by 25.2% to £201.2m**

**Statutory Group profit for the period £2.8m (2013: £3.8m),** after deduction of discontinuing costs of £2.3m (2013: £2.1m) and exceptional costs of £2.5m (2013: £0.4m)

**Group Adjusted EBIT[1] increased by 10.0% to £9.6m**

**Adjusted EBIT from e-fulfilment logistics operations up 49.4% to £3.7m** due to new contract wins and existing customer growth

**Non e-fulfilment logistics Adjusted EBIT up 15.8% to £9.2m**

**Investment in additional central logistics overheads of £1.8m** to further support growth into 2015

**Commercial vehicles Adjusted EBIT up 25.4% to £1.8m** due to business integration and depot rationalisation

**Adjusted earnings per share[2] increased to 6.6p (2013: 5.7p)**

**A new £30m bank debt facility was put in place** at IPO to facilitate targeted acquisition strategy

*[1] Adjusted EBIT is defined as operating profit excluding discontinuing and exceptional costs.*

*[2] Adjusted earnings per share is based on profit attributable to ordinary equity holders adjusted by adding back discontinuing and exceptional costs, and adjusting for the tax thereon.*

# Our Business Model

### Value-added Logistics Services

Clipper focuses on the provision of consultancy-led, value-added logistics services. It works closely with existing and prospective clients to develop tailored solutions to meet their specific logistics needs.

The Company is focused on the fashion and non-food retail sectors, and provides services under formalised contractual arrangements to a major blue chip customer base including SuperGroup, The John Lewis Partnership, ASOS, Asda, Morrisons, and Tesco.

Its market-leading position in providing solutions in the e-commerce sector, including returns management, places the Company in a strategically strong position given the structural changes taking place in retailing, with the increasing proportion of retail sales represented by online sales, and the move to multi-channel and omni-channel retail distribution models.

Further, credibility gained in the provision of logistics services in relation to high value products represents a real barrier to entry to this segment of the market.

The Company's focus on the retail sector ensures that it is able to offer best-practice, lowest-cost services to its blue chip customer base.

65% of the UK logistics division's revenue in the year to 30 April 2014 was on open book contract terms. Under the terms of these contracts, all costs incurred in providing services (people, property, plant and equipment, packaging, etc) are recharged to customers together with a management fee. The contract mechanisms provide Clipper's customer base with total transparency, and make for solid long-term relationships with clients, whilst protecting Clipper from cost inflation, mix changes and, largely, volume downsides, whilst allowing the Company to benefit from increasing activity levels. Gainshare mechanisms and KPI-based incentives also allow Clipper to enhance profits, through innovation and excelling in service delivery.

14% of the UK logistics division's revenue in the year to 30 April 2014 was derived from minimum volume guarantee contracts, which protect Clipper from volume downsides, whilst allowing the Company to benefit from growing activity levels.

Thus, the business model within the logistics division in the UK provides a high degree of profit resilience, with just 21% of revenue derived from more traditional, closed book arrangements.

In Germany, all business is currently conducted on closed-book terms, although it is anticipated that as e-commerce activities develop these are likely to be on open book terms as such arrangements are mutually beneficial for both the retailer and the Group.

### Commercial Vehicles

The commercial vehicles business operates Iveco and Fiat franchises. It sells new and used vehicles, provides servicing and repair facilities, and sells parts.

Whilst revenues from new vehicle sales can vary due to wider economic conditions, margins on new vehicle sales tend to be relatively low. Margins on aftersales activities (i.e. servicing and parts) are much higher, so that in the year to 30 April 2014, whilst aftersales activities accounted for 41% of revenue, they accounted for 91% of gross profit generation (gross profit after directly attributable costs).

Since most commercial vehicles are required by law to be inspected every six weeks, this gives rise to stable profit and cash streams from this part of the Group.

**79% of the UK logistics division's revenue** in the year to 30 April 2014 was derived from **open book or minimum volume guarantee contracts**

# Our Key Strengths

### 1 Highly attractive exposure to online retail

The penetration of e-based sales in the UK is one of the highest in the world. The trend towards a greater proportion of retail activity being conducted online is expected to continue; research indicates that by 2022 one-third of all sales in the UK will be conducted online.

Returns management is expected to become the "battle-ground for competitive advantage" amongst retailers, with returns in the UK averaging between 25%-40%. Clipper has introduced a new brand, "Boomerang", to capitalise upon this opportunity, leveraging from its already market leading proposition in online fulfilment.

### 2 Innovative retail specialist

As a retail specialist, Clipper is a UK market leader in fashion and non-food multichannel logistics.

**The Group has a track record of innovation, including the development of:**

- Consolidation centres, where products destined for multiple retail outlets are consolidated, before being delivered to the destination. Examples include Meadowhall Shopping Centre in Sheffield and Regent Street in London;
- Port deconsolidation supply chain models, where facilities are located near a port of entry for deconsolidation and onward distribution through the supply chain; and
- The 'Boomerang' brand for returns management;

Clipper operates a consultancy-led business model, targeting value-added benefits for its customers. Strategic-level discussions focused on providing solutions to particular challenges ensure that Clipper is central to its clients' strategies.

### 3 Long-standing, blue chip and growing customer base

The Group has a wide portfolio of blue chip customers both in the UK and Germany, many of whom have been clients for many years.

### 4 High degree of contractual certainty underpins financial predictability and stability

Substantially the whole of the Group's UK logistics business is subject to formal contractual arrangements. For the year to 30 April 2014, 79% of revenue from UK logistics' customers was on open book or minimum volume guarantee terms, providing a high degree of profit and cashflow certainty, and protection against cost inflation, mix changes and, largely, volume downsides.

### 5 Real barriers to change

The specialised nature of the services provided by Clipper, particularly in the e-commerce and high value product sectors, represents real barriers to change, as evidenced by the high levels of customer retention experienced by the Group.

Many implementation projects involve the development of bespoke software, integration and other solutions, resulting in Clipper playing a central role in the delivery of the retailer's customer proposition.

### 6 Clear growth strategy

**The Group has a very clear strategy for future growth. This includes:**

- Continued organic expansion of the customer base;
- European expansion – the acquisitions of the Beständig group of companies in 2008 together with the more recent acquisition of R. Geist Spedition GmbH & Co. KG in October 2013, have created a platform in Germany from which the aspirations of both German retailers to move online, and UK retailers to expand into continental Europe, can be supported;
- Innovative retail solutions, including for example returns management services, which is expected to be a fast-growing area of retail activity. The Boomerang returns solutions brand was introduced in the 2014 financial year to capitalise on the opportunities presented to the Group in assisting retailers to deal with this challenging logistical issue; and
- Considering potential acquisitions which are complementary to the Group's activities.

### 7 Complementary commercial vehicles business

Northern Commercials has over 1,700 customers and is not heavily dependent on the logistics division of the Group.

Its profitability is driven by high-margin aftersales activity, which is underpinned by legal requirements governing the inspection of commercial vehicles.

Northern Commercials provides Clipper with flexibility over fleet procurement, and margins on servicing activity are retained within the Group.

The business is robustly profitable and cash generative.

# Segmental Highlights

### E-fulfilment operations

E-fulfilment operations include the receipt, warehousing, stock management, picking, packing and despatch of products on behalf of customers to support their online trading activities, as well as a range of ancillary support services.

At no time does Clipper take ownership of customers' products. The Company has recently introduced a new brand, 'Boomerang', under which returns of products sold online are managed on behalf of retailers.

Clipper expects to continue to experience rapid growth in this segment reflecting continuing migration to online retailing due to the structural changes taking place in the retail sector.

### Non e-fulfilment operations

Non e-fulfilment operations include receipt, warehousing, stock management, picking and distribution of products on behalf of customers. Clipper does not take ownership of customers' products at any time.

Within this sector Clipper handles high value products, including tobacco, alcohol and high value clothing, and also undertakes traditional retail support services including processing, storage and distribution of products, particularly fashion, to high street retailers.

### Central logistics overheads

Central logistics overheads are the costs of support services specific to the value-added logistics services segment, but which are impractical to allocate between the sub-segment activities.

### Commercial vehicles

The commercial vehicle business, Northern Commercials, operates Iveco and Fiat commercial vehicle dealerships from six locations, together with three sub-dealerships. It sells new and used vehicles, provides servicing and repair facilities, and sells parts. Vehicles sold and serviced range from small light commercial vans, through to articulated tractor units.

**Segmental Highlights:**

| | **Year to 30 April 2014 £m** | Year to 30 April 2013 £m | **% Change** |
|---|---|---|---|
| E-fulfilment logistics revenue | **46.0** | 29.6 | **+55.5%** |
| E-fulfilment logistics Adjusted EBIT | **3.7** | 2.5 | **+ 49.4%** |
| Non e-fulfilment logistics revenue | **89.6** | 69.3 | **+ 29.3%** |
| Non e-fulfilment logistics Adjusted EBIT | **9.2** | 7.9 | **+15.8%** |
| Central logistics Adjusted EBIT | **(4.2)** | (2.4) | |
| **Total logistics revenue** | **135.6** | 98.9 | **+37.1%** |
| **Total logistics Adjusted EBIT** | **8.7** | 8.0 | **+8.3%** |
| **Commercial vehicles revenue** | **66.8** | 62.9 | **+6.1%** |
| **Commercial vehicles Adjusted EBIT** | **1.8** | 1.4 | **+25.4%** |

*Adjusted EBIT as shown above excludes discontinuing and exceptional costs.*

*Percentages are calculated based on the underlying numbers as presented in the Financial Statements, not on the rounded figures in the table above.*

# Chairman's Statement

Steve Parkin, Executive Chairman

I am pleased to write as Chairman of Clipper Logistics plc following the successful Initial Public Offering on the London Stock Exchange in June 2014. The demand for the listing was high, and we are delighted to attract blue chip institutional and retail investors as shareholders. The business is growing through our ability to demonstrate real value-add services for our large client base and we are confident of maintaining this level of momentum.

The Group has seen a strong performance throughout the year under review with a number of high profile new contracts being signed including major brands such as SuperGroup, Tesco and ASOS.

Our desire to constantly identify new methods and technology that ease the operational burdens of our clients is the driving force behind the business. The Group's unrivalled understanding of the e-fulfilment and returns market, along with the ever-evolving needs of customers in these areas will ensure we retain and expand our market share. Clipper is rightfully excited about the years to come and is proud of the quality of service it continues to provide.

# Chairman's Statement

continued

**Results**

Group revenues increased by 25.2% to £201.2 million for the year to 30 April 2014, and Group Adjusted EBIT increased by 10.0% to £9.6 million, in line with the profit estimate included in the IPO Prospectus.

Continued strong cash generation enabled the Group to pay a dividend of £6.3 million during the year.

We anticipate paying circa 40-60% of after tax profits as dividends going forward, given the strong cash profile of the business.

**People and Board**

Clipper Logistics plc is led by an excellent management team that has been at the core of the business for many years.

Having guided the Group through periods of significant change in the UK retail industry, the management team's proven ability to continue to steer the business along its path of organic growth through customer focus, technical innovation and growing brand awareness is well established.

I would like to take this opportunity to thank all the employees of the Group for their commitment and contribution to the Group's performance.

**Governance**

Following its IPO, the Group is proud of its commitment to high levels of corporate governance as a listed company. Alongside the executive management team of Tony Mannix (CEO), David Hodkin (CFO) and Sean Fahey (CIO) the Company benefits from the combined experience of its Non-Executive Directors: Paul Hampden Smith (Senior Independent Non-Executive Director), Stephen Robertson, Ron Series and Mike Russell.

**Look ahead**

The Group is in an enviable position; being amongst the leading providers of value-added and e-fulfilment solutions to the retail sector in the UK, the business is growing in line with its strategy and is poised for further growth in the medium term, both in the UK and internationally.

I look forward to working with all of the Group's stakeholders as we continue to deliver on the next phase of the business's development.

Group revenues increased by
**25.2% to £201.2 million**
for the year to 30 April 2014

Group Adjusted EBIT* increased by
**10.0% to £9.6 million**
for the year to 30 April 2014

**Adjusted EBIT is defined as operating profit excluding discontinuing and exceptional costs.*

# Operational and Financial Review

## 1. Overview of results

We have reported additional comparatives in the Group Financial Statements as required for a first time adopter of IFRS, but the following comments focus only on the results for the year to 30 April 2014 and, where relevant, to the first year of comparatives.

The Group made excellent progress in the financial year to 30 April 2014.

Group revenues increased by 25.2% to £201.2 million, with strong growth in all business areas including e-fulfilment logistics, non e-fulfilment logistics and commercial vehicles, as demonstrated by the following table:

| Revenue | Year to 30 April 2014 £m | Year to 30 April 2013 £m | % change |
|---|---|---|---|
| E-fulfilment logistics | 46.0 | 29.6 | +55.5% |
| Non e-fulfilment logistics | 89.6 | 69.3 | +29.3% |
| Total logistics | 135.6 | 98.9 | +37.1% |
| Commercial vehicles | 66.8 | 62.9 | +6.1% |
| Inter-segment sales | (1.2) | (1.1) | |
| Group revenue | 201.2 | 160.7 | +25.2% |

*Percentages are calculated based on the underlying numbers as presented in the Financial Statements, not on the rounded figures in the table above.*

**Within the logistics segment, the Group benefited from:**

- the full-year impact of contract wins secured in the previous financial year including, amongst others, Wilkinsons, American Golf, Claire's Accessories, Hobbycraft and Morrisons Nutmeg;
- organic growth on existing contracts, including Tesco, Asda, The John Lewis Partnership, New Look, Sainsbury's, and Morrisons transport; and
- the part-year impact of contracts won during the year to 30 April 2014, including ASOS, SuperGroup and Antler, as well as a range of other new contract wins. The full year benefit of these contracts will be realised in the year to 30 April 2015, together with the part-year benefits of contracts currently in the pipeline and due to go live during the remainder of calendar year 2014 and early calendar year 2015.

**Revenue growth in commercial vehicles was driven by:**

- an increase in the volume of new vehicle sales, with sales of 2,447 units, compared to 1,782 in the year to 30 April 2013; and
- a modest increase in after-sales revenues.

# Operational and Financial Review

continued

## Group Adjusted EBIT

The Group also grew Adjusted EBIT strongly in all segments, and invested in additional project delivery and senior management resource in order to deliver significant organic growth into the future:

| Group Adjusted EBIT | Year to 30 April 2014 £m | Year to 30 April 2013 £m | % change |
|---|---|---|---|
| E-fulfilment logistics | 3.7 | 2.5 | +49.4% |
| Non e-fulfilment logistics | 9.2 | 7.9 | +15.8% |
| Central logistics overheads | (4.2) | (2.4) | |
| Total logistics | 8.7 | 8.0 | +8.3% |
| Commercial vehicles | 1.8 | 1.4 | +25.4% |
| Head office costs | (0.9) | (0.7) | |
| Group Adjusted EBIT | 9.6 | 8.7 | +10.0% |

*Group Adjusted EBIT is defined as Group operating profit excluding discontinuing and exceptional costs.*

*Percentages are calculated based on the underlying numbers as presented in the Financial Statements, not on the rounded figures in the table above.*

Group Adjusted EBIT increased by 10.0% to £9.6 million in the year to 30 April 2014, and the Group is well placed to achieve further EBIT growth in the coming financial year due to the full year benefits of recent contract wins, coupled with a very strong new business pipeline.

Adjusted EBIT is the core metric by which the management team assesses corporate performance, as the high proportion of open book and minimum volume guarantee contracts within the UK logistics division distorts reported margins.

This is due to an element of management fees on certain contracts being fixed in the short term, so that an increase in revenue in periods of increased activity will not necessarily give rise to a proportionate increase in profit, resulting in lower reported margins. Conversely in periods of reduced activity levels, reported margins would typically increase.

Similarly, revenue derived from minimum volume guarantee contracts is fixed at a minimum level, so that a shortfall in activity levels would give rise to a lower cost base, and a higher reported margin.

Accordingly, Adjusted EBIT is a more relevant measure of financial performance.

E-fulfilment operations include the receipt, warehousing, stock management, picking, packing and despatch of products on behalf of customers to support their online trading activities, as well as a range of ancillary support services.

The Company has recently introduced a new brand, 'Boomerang', under which returns of products sold online are managed on behalf of retailers.

Non e-fulfilment operations include receipt, warehousing, picking and distribution of products on behalf of customers.

Within this sector the Group handles high value products, including tobacco, alcohol and high value clothing, and also undertakes traditional retail support services including processing, storage and distribution of products, particularly fashion, to high street retailers.

Central logistics overheads include the costs of the Directors of the logistics business, the project delivery and IT support teams, sales and marketing, accounting and finance, and human resources, that cannot be allocated in a meaningful way to business units and segments. We invested significantly in such resources during the year, particularly in operational support, and solution design and implementation, in view of the very high levels of organic growth being experienced by the business.

# Operational and Financial Review

continued

Whilst some additional infrastructure will inevitably be required as the business continues to grow, the investment in central logistics overheads will be of more modest proportions.

The commercial vehicle business, Northern Commercials (Mirfield) Ltd, operates Iveco and Fiat commercial vehicle dealerships from six locations, together with three sub-dealerships. It sells new and used vehicles, provides servicing and repair facilities, and sells parts. Vehicles sold and serviced range from small light commercial vans, through to articulated tractor units.

Head office costs represent the cost of the Executive Chairman, Chief Financial Officer, Non-Executive Directors and plc compliance costs.

The profit after tax for the year to 30 April 2014 was £2,846,000 (2013: £3,774,000), as set out on page 76. This is stated after charging £2,297,000 (2013: £2,137,000) of discontinuing costs, and £2,516,000 (2013: £392,000) of exceptional costs.

As such, adjusted profit after tax for the year to 30 April 2014 (which excludes the discontinuing costs, exceptional costs and the tax associated with those costs, and which the Board believes is therefore a more meaningful measure of the performance of the Group) was £6,540,000 (2013: £5,690,000).

The discontinuing costs relate to remuneration of a retiring director, consultancy and professional fees in respect of potential investment opportunity appraisals, the costs of operating the Chairman's private office, and certain advertising, sponsorship and entertaining expenditure which will not be borne by the Group post-Admission ("Admission" being defined as 4 June 2014, the date on which Clipper Logistics plc was admitted to the premium segment of the London Stock Exchange).

Of the exceptional costs of £2,516,000 charged to profit and loss in the year to 30 April 2014, £1,981,000 related to the costs of the IPO. The balance related to depot closure costs (£363,000), redundancy costs on reorganisation (£162,000), and aborted contract exit costs (£10,000).

### Net interest charges

Net interest charges for the year to 30 April 2014 were £851,000, a reduction of £151,000 from the £1,002,000 incurred in the previous year, reflecting the cash generative nature of the Group's operations.

### Taxation

The effective rate of taxation of 27.9% (2013: 27.5%) is higher than the standard rate of corporation tax of 22.84% (2013: 23.92%) principally due to the relatively high proportion of expenditure disallowable for tax purposes. As the discontinuing head office costs include some disallowable items such as customer entertaining and sponsorship, the effective rate of tax is expected to reduce in the year ended 30 April 2015.

### Earnings per share

As set out in note 22 to the Financial Statements, during the year to 30 April 2014 there was a group reorganisation involving both an issue and a subdivision of shares.

In addition, there was a large amount of non-recurring costs. Consequently, the basic measure of earnings per share is significantly distorted by these factors. Adjusting earnings to exclude discontinuing and exceptional costs and the tax effect thereon, gives adjusted earnings of £6,540,000 for the year to 30 April 2014 (2013: £5,690,000).

# Operational and Financial Review

continued

Adjusted earnings per share were 6.6 pence for the year to 30 April 2014 (2013: 5.7 pence).

On an unadjusted basis, earnings per share were 2.8 pence (2013: 3.8 pence).

## Capital expenditure

Of total capital expenditure of £5,139,000 (2013: £5,615,000), £3,135,000 (2013: £4,196,000) related to new logistics contracts or increases in capacity; £1,771,000 (2013: £1,420,000) was to replace or maintain existing assets and £233,000 (2013: £nil) related to business combinations (see note 28).

## Cash flow

The Group reorganisation undertaken as part of the preparation for the IPO outlined above, has caused some distortion in reported cashflows, due to the continued existence of balances due to and from the Group's former parent company, Clipper Group Holdings Ltd. From the new financial year onwards, such distortions will not continue.

Net cash flow from operating activities was £11,617,000 (2013: £8,084,000). Prior to the reorganisation of the Group, dividends totalling £6,349,000 (2013: £2,800,000) were paid to the former parent company.

The Group's business model gives rise to high levels of cash generation. In the UK logistics business, Clipper is typically paid in the month in which services are delivered on open book and minimum volume guarantee contracts, giving rise to a typically negative investment in working capital, whilst in the commercial vehicles business working capital is substantially funded by the manufacturer through stocking facilities for new vehicles, and trade credit terms for parts supplied.

## Net debt

As shown in note 20 to the Financial Statements, the Group's net external debt at 30 April 2014, on a statutory basis, was £3,860,000 (2013: £2,683,000). At the same time, the net balance owing to the former parent company was £14,181,000 (2013: £2,335,000).

On 2 May 2014, bank and hedging facility agreements which had been entered into by the former parent company were novated to the Company. Subsequent to this, the Group's banking facilities were restructured, effective from the date of Admission.

If the novation and restructuring of the former group's bank facilities had occurred at 30 April 2014, and balances with the former parent company settled, the Group's net debt would have changed as in the table below.

| Group net debt as at 30 April 2014 | Cash & cash equivalents £'000 | Current borrowings £'000 | Non-current borrowings £'000 | Net debt £'000 |
|---|---|---|---|---|
| Actual Group net debt per note 20 to the Financial Statements | 5,360 | (4,960) | (4,260) | (3,860) |
| New bank loans | 12,500 | (2,500) | (10,000) | |
| Repayment to former parent company | (15,267) | - | - | |
| Receipt from former parent company | 1,086 | - | - | |
| Adjusted net debt | 3,679 | (7,460) | (14,260) | (18,041) |

# Operational and Financial Review

continued

## 2. Logistics division

### Market overview, size and growth of market and market trends

Traditional bricks and mortar retail still constitutes the majority of retail sales in the UK. However, the growth of online retailing and the desire for major retail brands to have as many different touch points with their customers as possible means that multichannel retailing will be a dynamic driver of change for both the retail and logistics markets in the near future. An increasing number of distribution channels are now required to meet the demands of the consumer, including shopping at stores, home delivery, click and collect as well as the return of purchased items. The fact that the penetration of internet-based sales in the UK economy is one of the highest in the world leads the Directors to believe that the UK is at the forefront of the logistics challenges being posed to retailers by the growth in online retail.

The retail sector is undergoing structural changes, and as a market leader in the provision of services to support retailers' online and returns management challenges, the Group is strategically well placed to capitalise on the very significant growth expected in this sector of the market.

According to market research, the UK's e-commerce market has grown from £0.8 billion in 2000 to £78 billion in 2012 (£62.4 billion excluding travel) and is set to reach £107 billion in 2014 (17% annual increase) with double-digit growth forecast until around 2017.

The online retail market continued to see steady growth in February 2014, recording a 14.3% year on year increase.

Online sales in the UK are predicted to grow to £125 billion in 2022, by which point one third of sales in the UK are forecast to be conducted online.

### Structural growth in online, multichannel retailing

The UK has one of the highest rates of internet and smartphone penetration in Western Europe and this level of penetration is expected to increase further in coming years. The proportion of online sales as a percentage of total retail sales in the UK is already one of the highest in the world.

This trend is fundamentally altering the logistical requirements of retailers, who must meet the challenges of multichannel retailing (whereby customers place orders across a variety of sales channels, for example retail stores, online stores, mobile stores and telephone sales), which demands complex warehousing, order processing and stock management systems in order to deliver a high quality service to consumers. Further, non-food retailers are expected to invest approximately £5 billion in making the transition from multichannel to "omni-channel" retailing over the next five years.

The UK's e-commerce market has grown from **£0.8 billion in 2000 to £78 billion in 2012**

Omni-channel represents the latest evolution of multichannel retailing, whereby retailers offer consumers flexibility not only on the method of order placement (as is the case with multichannel) but also in respect of the choice of delivery destination – for example, the consumer might place an order online and choose to have the order delivered to that retailer's high street store, or at a 'click and collect' site in a third party location, rather than their home address. This development adds even greater complexities to the logistical requirements of retailers.

### Returns management demands of retailers increasingly complex

Returns management is an increasingly important area for retailers. It is estimated that 25% to 40% of all clothing and footwear purchases in the UK are returned. Historically, customers would return the product to the store where the purchase was made, but as online retail has developed, customers are demanding choice in their method of return, for example posting the product back to the retailer, or taking it into a high street store or a collection point.

Retailers are becoming increasingly concerned to ensure that returns management is handled effectively so that their brands are not damaged by customers using social media. In addition, rectification during the returns management process can add value and enhance margin for the retailer.

# Operational and Financial Review

continued

This represents a stock management and processing challenge for retailers, since traditional warehouses have been designed to receive and process large quantities of identical product, rather than to receive individual units of product. Equally, such returned units will inevitably require some degree of inspection, rectification, cleaning or repair before going back into available stock, or may even be deemed unfit for prime sale. Returns can in addition lead to significant levels of working capital tied up in stock.

Retailers therefore need to rework the product into a saleable state very quickly to reduce working capital investment and maintain margins. The Group has a strong track record of managing this process for customers, including managing the returns operation for ASOS, the UK's leading online fashion retailer.

Further, the power of social media and consumer review websites enhances the importance of returns management as the returns experience represents the final touch point between a retailer and the consumer – a badly handled customer experience in respect of the returns process may be quickly communicated by that customer to a large number of people, particularly via social media, which has the potential to harm a retailer's future sales prospects.

The above structural, continuing market changes have enabled the Group to make very significant advances in its revenues and earnings.

Revenues from e-fulfilment activities, including returns management, increased by 55.5% from £29.6 million for the year to 30 April 2013 to £46.0 million for the year to 30 April 2014. We are particularly pleased with this performance, as our strategy has been to become a market leader in the e-commerce sector, and to be a thought leader in the provision of value-added services across the sector.

To address the latest challenges imposed on retailers by returns management as outlined above, Clipper has successfully introduced the "Boomerang" brand and concept during the year, and we are particularly pleased to welcome ASOS as the first new customer using those services.

### Non e-fulfilment logistics is central to our future strategy too

The Group will continue to develop and deliver truly value-added services to address the needs of retailers in more traditional areas of logistics services, including receipt of inbound product, storage, store-readiness of product, and distribution to retail destinations.

The Group will continue to innovate to deliver best in class solutions for its customers.

The recently opened port-centric facility at our Wynyard site, with Asda George as its core client supported by a ten-year contractual commitment, has gained traction with other clients such as Antler.

Revenue from non e-fulfilment operations grew by 29.3% for the year ended 30 April 2014, from £69.3 million to £89.6 million, with Adjusted EBIT increasing by 15.8%, from £7.9 million to £9.2 million. Future growth in more traditional, value-added logistics services remains central to our future strategy too, and we were pleased to welcome SuperGroup, Hobbycraft, and Antler, amongst others, to Clipper during the year.

### Retail consolidation centres

Clipper is a market leader in retail consolidation centres, which allow multiple deliveries to be made to retail outlets from a single, localised centre, providing benefits in:

- retail space availability, as the need for on-site stock rooms is obviated;
- a wider range of stock being available to the end customer; and
- reduced emissions, of increasing importance in city centres in particular

# Operational and Financial Review

continued

### Multi-user operations

The Group encourages the use of multi-user sites, where a multiplicity of customers are served from a single location.

This facilitates the sharing of specialised resources, and assists in optimising and balancing demand on people and facilities, in turn allowing the Group to provide cost-effective solutions.

### Acquisition of R. Geist Spedition GmbH & Co. KG

Clipper Logistics GmbH acquired the whole of the issued share capital of R. Geist Spedition GmbH & Co. KG ("Geist") in October 2013.

This follows the acquisition in December 2008 of the trade and assets of the Beständig group of companies out of administration, by the Group's former parent company.

The German entities were subsequently reorganised such that all trading activities were undertaken by Clipper Geist Logistics GmbH & Co. KG from 1 March 2014.

On 16 April 2014, the Company acquired from Clipper Group Holdings Ltd, at book value, its entire investment in other members of the Group, which included 75% of Clipper Geist Logistics GmbH & Co. KG. On 30 April 2014 the Company acquired the remaining 25% of Clipper Geist Logistics GmbH & Co. KG in exchange for the issue of 800,000 ordinary shares.

The acquisition of Geist provides the Group with a platform from which it can:

- service the needs of German-based retailers who wish to move online;
- support the European expansion plans of UK-based retailers;
- continue to evolve its service offering to existing and prospective customers.

We are in active discussions with a number of UK retailers about their international logistics requirements, as well as with existing German-based customers about their evolving needs, particularly in relation to online activity, and returns management.

### Investment in key personnel

The Group differentiates itself by providing consultancy-led, value-added services to its actual and prospective client base. We have established ourselves as a thought leader within the logistics sector, and this is evidenced both by our customers' buy-in to our innovative approach, and by independent brand health reviews conducted by an independent market research consultancy.

The Group is central to the achievement by its customers of their own objectives and goals.

Accordingly, we invest in recruiting, training and developing people who are specialists in their relevant fields. These include information technology, solution design, facilities specification, implementation and management, ecommerce and returns management, and project management and implementation resource.

During the 2014 financial year, due to the very significant organic growth being experienced by the business driven by its strategic positioning, we invested in additional resources both to deliver the short term business wins, but also to provide an infrastructure capable of continuing to deliver significant growth going forwards. Accordingly, central logistics costs increased from £2.4 million to £4.2 million as a result of this investment. Whilst further resources will be required as the business continues to grow, the investment in 2014 provided a significantly enhanced infrastructure capable of delivering the short to medium term requirements of the business.

# Operational and Financial Review

continued

## 3. Commercial vehicle division

The commercial vehicles business delivered a significantly improved Adjusted EBIT of £1.8 million (2013: £1.4 million), an increase of 25.4% on the previous year.

Stormont Truck and Van Ltd was integrated into Northern Commercials in August 2013. This consolidation achieved cost reductions in central and administrative functions, but has also provided a focused platform for market share growth in all areas of the country in which we operate.

Northern Commercials operates from six dealership locations, and has three sub-dealers. Dealerships are located in Brighouse, Manchester, Northampton, Dunstable, Tonbridge and Brighton. Thus, the business operates across the north of England and Wales (with sub-dealers supporting this geographic territory), through the midlands, and into the south-east.

The business sold 2,447 new vehicles in the year, and 416 used vehicles. Key customers include Asda, Ryder, Dawsons, Allied Bakeries, Clancy Dochra, the Variety Club, and a host of other household names.

The business achieved a number of important key performance measures in the year:

- Assistance non-stop: Northern Commercials achieved the best response time of all Iveco dealers in the UK, averaging 40.2 minutes to arrive to provide assistance to breakdowns;
- vehicles off-road: Northern Commercials was the number one dealer, with an average of 0.7 days off-road for repairs, compared to an Iveco target of 1.8 days;
- MOT pass rate: 98.9% of vehicles achieved an initial pass; and
- parts service: 97% of parts required by customers were delivered within 24 hours.

## 4. Current trading and outlook

The Group secured a number of significant contract wins in the year to 30 April 2014, the full year benefit of which will be realised in the year to 30 April 2015. These wins included high profile brands, for example SuperGroup and ASOS.

As we look ahead to the 2015 financial year, we have a very strong new business pipeline. We continue to win new contracts within both e-fulfilment logistics and non e-fulfilment logistics, both in the UK and Europe, through our focus on our retail specialisms and provision of cost-effective, value-added solutions. We look forward to updating shareholders on these new contracts when they are formalised.

Since the year end we have signed a five year contract extension with Tesco, to provide additional services to support their on-line clothing strategy. In Germany, we have signed a five year contract extension with s.Oliver.

Our returns management service, marketed under the "Boomerang" brand, continues to gain traction with retailers in both the UK and Europe, and we are confident that this represents a major area of growth going forward.

The commercial vehicles business is expected to continue to deliver steady growth in profitability in the year to 30 April 2015.

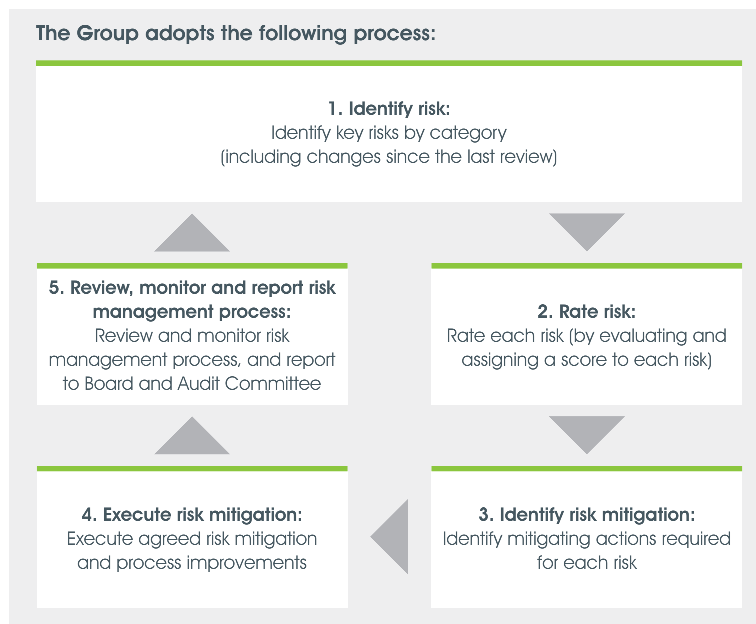
The Board is confident in the Group's prospects for the full year ahead. Current trading is in line with our strategic plan, and we are confident of achieving another period of excellent financial performance in the year to 30 April 2015.

# Risk management

## The Group adopts a formal risk identification and management process designed to ensure that risks are properly identified, prioritised, evaluated and mitigated to the extent that is possible, in order that the Group can achieve its strategic objectives and enjoy long-term success.

### Risk Management Process

The Board and senior management team are collectively responsible for managing risk across the Group. Risks are reviewed regularly and risk registers are updated at least four times a year.




**The Group has identified the following key risks as a result of the risk management process:**

**Strategic:**

| Risk | Mitigation |
|---|---|
| **Reputation**<br>Clipper's potential to win new business is influenced by its reputation for successfully implementing major customer projects. Reputational damage from failed project implementations may have an adverse impact on Clipper's ability to win new business, and thus limit the Group's long term growth and success. | Clipper has developed effective project management and governance techniques to ensure that the Company works closely with customers using highly trained and experienced internal staff, to ensure successful project delivery.<br><br>All projects are reviewed and evaluated on a weekly basis by the relevant operational board members.<br><br>In addition, independent 'Brand Health' reviews are undertaken regularly to monitor customer perception of, and satisfaction with, the Company. |
| **Employees**<br>Failure to develop and retain key staff may prevent the Group from delivering its objectives. | The Group offers comprehensive training and experiential learning, and keeps in close contact with employees via flat structures and effective employee engagement.<br><br>The Group also ensures that it has competitive terms and conditions, and can respond flexibly to the needs of employees. |

# Risk management

continued

**Operational:**

| Risk | Mitigation |
|---|---|
| **Loss of operational delivery**<br>During periods of major project and merger activity, the focus could move away from operational delivery, thus harming the Group's relationships with customers. | Dedicated start-up and project teams are used in order to minimise disruption to the operation during such times. Contractual Key Performance Indicators (KPIs) are reviewed regularly to ensure operational effectiveness at all times. |
| **Failure to achieve contractual KPIs**<br>Failure to achieve contractual KPIs may result in the loss of existing contracts. | Reporting measures are in place to measure contractual KPI performance in a timely manner, to ensure compliance, or immediate corrective action. |
| **Failure to maintain and enhance customer relationships**<br>Failure to maintain and enhance customer relationships may lead to the non-renewal of contracts, and/or may prevent the Group from winning new work with existing customers. | The Group holds formal monthly reviews with key customers as well as maintaining frequent close informal contact with customers. This enables corrective action to be taken quickly in response to customer feedback. In addition, regular brand health reviews are carried out which give customers the opportunity to comment anonymously on any aspect of the customer/Company relationship and service delivery. The Group can then take corrective action if required, based on this feedback. |
| **Loss of an operational site through disaster**<br>Loss of an operational site as a result of fire, flood or other disaster would have the potential to seriously disrupt operations. | Regular safety audits and inspections and remedial action seek to limit this risk.<br><br>In the event of a serious incident, each site has a business continuity plan which would come into immediate operation. |

**Financial:**

| Risk | Mitigation |
|---|---|
| **Liquidity**<br>Inadequate cash resources could leave the Group unable to fund its growth plans, thus affecting future financial performance. | As part of the IPO process, the Group undertook an assessment of its funding requirements in the context of its growth plans, and entered into new facilities with its bank to ensure that expected future growth plans can be funded within these new facilities.<br><br>The Group will continue to undertake further reviews of funding requirements as its growth plans evolve. |
| **Credit risk**<br>Customer default or insolvency could result in a bad debt. | Credit checks are performed on all new potential customers, and credit terms and limits are set accordingly. These are reviewed regularly, and adjusted if necessary. Standard terms of trade give the Company a general lien on the customer's stock for amounts owed.<br><br>Where customer contracts negate the Company's standard terms protections against non-payment of amounts due are written into the contract. |

# Corporate Social Responsibility

The Group recognises the importance of Corporate Social Responsibility ("CSR"), and our impact on the environment and our people, their development, commitment and relationships with our customers, the community and other stakeholders are central to our plans.

## People development

At every level we provide excellent opportunities for our employees. We provide unemployed people in local communities with the opportunity for training, qualifications and jobs via our Clipper Academy programmes. Existing employees develop via driver CPC qualifications, NVQs, apprenticeship and Potential Team Development Programmes.

Our staff can then apply to join our Corporate First Line and Middle Management Levels 2 and 3 Aspire Programmes. We support relevant professional qualifications and have invested in a Group Training and Development Manager to internally deliver management training courses and develop an in-house senior leadership programme.

## Schools and universities

Many of our distribution centres network with local schools and colleges to offer site visits or support career events. Clipper is represented on the Employer Liaison Committee of the Logistics Institute of Hull University.

To encourage a greater number and higher calibre of students to enter the logistics sector we have partnered with Huddersfield University.

As a founding member of the Novus Trust we help develop the curriculum, present guest lectures and offer students holiday jobs, work placements and permanent employment opportunities for two to three graduates each year.

## Community events

At both corporate and local level we actively encourage our sites to participate in good causes through direct funding, provision of resource and/or encouraging our employees to organise fundraising events. Recent examples include a sponsored Dragon Boat Race for Martin House, sponsored cycle rides for Transaid and site events for Children in Need, Red Nose Day, Cancer Research and local charities.

We support various local forums and sponsor community activities such as a children's football team.

## Employee engagement

To encourage employees to give us their best we aim to provide a competitive level of pay and other benefits relative to job and skill level, including the provision of retail discount schemes, company contribution to a pension scheme and life/accident cover.

We encourage alignment with Group goals via open communication. We have an annual conference for our senior staff, site employee forums, health and safety committees, team briefs, our Company newsletter 'Evolve' and highly visual notice boards.

We recognise employee contribution and loyalty via our Employee of the Month Scheme, Driver of the Year Award and Long Service awards.

We encourage team working by involving employees in open days and inter-site competitions, as well as organised themed events on special occasions.

## Equal Opportunities

The Group is committed to an Equal Opportunities Policy. Supported by training, policies and our 5 Point Code of Behaviour we aim to ensure that no employee is discriminated against, directly or indirectly, on the grounds of colour, race, ethnic and national origins, sexual orientation or gender, marital status, disability, religion or belief, or on the grounds of age.

The above is reflected in our truly diverse workforce. We are happy to consider requests for flexible working and wherever possible will agree shift patterns which facilitate a balance between work and family life.

We are also members of the Disability Forum.

## Health and safety

The Group seeks to protect employees from accidents and injuries at work. Our health and safety structure is supported by IOSH qualified representatives and Health and Safety Committees at each site. Each site receives at least two safety audits each year. Serious incidents are escalated and accident statistics are monitored. Accidents are reported and investigated. Health and safety matters are reported and monitored at Board level.

Health and safety training is prevalent throughout the business – from initial induction training, through risk assessed task training (e.g. manual handling, fork lift truck and use of knives) to management awareness programmes.

# Corporate Social Responsibility

continued

### Environment

We recognise the Group's activities have an impact on the environment but we believe we can improve our environmental footprint and save energy. This is important to both the Group and our stakeholders.

Our Carbon Management Reduction Programme aims to reduce energy consumption and emissions of greenhouse gasses from our warehouses and transport fleets.

**To this end:**

- we are applying the latest environmental standards as and when we upgrade our estate;
- we are investing in low energy lighting and testing the advent of LED lighting;
- we investigate fuel use, route planning and best design of vehicles across the fleet to become more efficient and minimise emissions. We participate in the ECO Stars Fleet Recognition Scheme which recognises fleet operators who use lower polluting vehicles and effective fuel management – becoming the first multi regional member of this scheme;
- we promote environmental awareness via training, including training van and LGV drivers in Safe and Fuel Efficient Driving – using the latest simulator technology, which in turn avoids fuel use associated with the training; and
- we encourage employees to use 'green' transport. Our company car lists offer the use of newer, lower emission vehicles and our sites promote the use of car sharing.

### Waste recycling

The Group considers the best use of raw materials using recycled/recyclable products where applicable. Waste is sorted into plastics, paper/cardboard, wood and metal. It is then recycled, reused or compacted on site.

### Commercial

Wherever possible we work with our customers to build environmental considerations into our recommended solutions. This is particularly evident with our pioneering retail consolidation centres which greatly reduce final mile deliveries, congestion and associated emissions when delivering to shopping centres.

### CSR policy

The Group recognises the importance of environmental protection and is committed to conducting business ethically, responsibly and in compliance with laws, regulations and codes of practice applicable to our business activities. The CSR and related policies are reviewed and amended where appropriate.

### Gender breakdown

| | Male | Female |
|---|---|---|
| Board of Directors | 100% | 0% |
| Senior Management | 79% | 21% |
| Group | 64% | 36% |

**Approved by the Board and signed on its behalf by:**

**David Hodkin**
**Chief Financial Officer**
**28 August 2014**

# Governance

# Board of Directors

**The following table lists the names, positions and dates of birth of the current members of the Board:**

| Name | Position | Date of Birth |
|---|---|---|
| Steven (Steve) Nicholas Parkin | Executive Chairman | 17 December 1960 |
| Antony (Tony) Gerard Mannix | Chief Executive Officer | 1 August 1963 |
| David Arthur Hodkin | Chief Financial Officer | 14 February 1961 |
| Sean Eugene Fahey | Chief Information Officer | 28 March 1970 |
| Paul Nigel Hampden Smith | Senior Independent Non-Executive Director | 1 December 1960 |
| Stephen Peter Robertson | Independent Non-Executive Director | 17 November 1954 |
| Ronald (Ron) Charles Series | Independent Non-Executive Director | 27 August 1951 |
| Michael (Mike) John Russell | Independent Non-Executive Director | 19 January 1951 |

The business address of each Director is Gelderd Road, Leeds, West Yorkshire LS12 6LT.

**Steve Parkin, Executive Chairman**
Steve, a fashion logistics specialist, founded the Group in 1992. As Executive Chairman, Steve is responsible for the strategic direction of the Group. Steve has extensive experience of retail logistics particularly in fashion. He holds and pursues strategic level discussions with major retailers.
In addition, Steve drives the Group's acquisition strategy. Steve is the chairman of the Nomination Committee.

**Tony Mannix, Chief Executive Officer**
Tony was appointed Chief Executive Officer of the Group in May 2014. Tony joined Clipper in 2006 as Managing Director of the UK logistics division. Tony has over 25 years' experience in the logistics sector, and has held a number of senior roles with Roseby's plc (which became part of Homestyle Group plc) becoming Logistics Director. Tony has particular experience of operating in complex retail logistics environments, including the design and specification of both distribution centres and warehouse management systems. Tony began his career in logistics with the Burton Group, after working in the construction industry following his graduation with a degree in Architectural Engineering.

**David Hodkin, Chief Financial Officer**
David joined the Group as Group Chief Financial Officer in 2003. David has held a variety of board level roles prior to joining Clipper, including Group Finance Director of Symphony Group plc, Finance Director of Kunick Leisure Ltd, and a number of senior roles in Magnet Ltd. David is a member of the Chartered Institute of Management Accountants.

**Sean Fahey, Chief Information Officer**
Sean joined Clipper in 1992, initially as the director responsible for accounting and IT. Sean has extensive experience of designing

# Board of Directors

continued

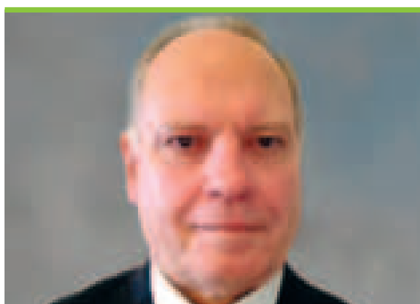
and implementing complex logistics solutions, based on many years of direct operational management experience, which complement his skills as an IT specialist. As the Group has grown, Sean has held positions of Development Director, Project Director, and now has responsibility for the IT, projects and implementation functions as Chief Information Officer, along with his responsibilities on the Board.

**Paul Hampden Smith, Senior Independent Non-Executive Director**

Paul joined the Group as Senior Independent Non-Executive Director on 16 May 2014. Paul retired from his role as Group Finance Director of Travis Perkins plc in 2013, following 25 years with the group. During that time, the group enjoyed tenfold growth and Paul oversaw a significant number of acquisitions ranging from £1 million to £1 billion in size. During the last ten years, Paul has held non-executive directorships on the boards of DX Services plc, Redrow plc, Bellway plc and Pendragon plc. Paul was also appointed as Chairman of the Audit Committee in each of these non-executive roles. Paul is the chairman of the Audit Committee and is a member of the Remuneration Committee.

**Stephen Robertson, Independent Non-Executive Director**

Stephen joined the Group as Non-Executive Director on 16 May 2014. Stephen has many years of experience in the retail industry and has held executive positions at Kingfisher plc, WH Smith plc and Woolworths Group plc. Stephen was previously a director of the British Retail Consortium and is currently an Advisory Board Member of Retail Week. Stephen's current non-executive directorships include Timpson Group plc and Hargreaves Lansdown plc. Stephen is a member of the Audit Committee.



**Ron Series, Independent Non-Executive Director**

Ron joined the Group as Non-Executive Director on 16 May 2014. Over the past 20 years, Ron has held executive and non-executive positions with a number of companies with international operations in transport, logistics, shipping, real estate and information technology. Included among them are Tuffnells Parcel Express where he was chairman during its ownership by 3i and UK-listed companies such as Davies and Newman plc and LEP Group plc. Most recently, he has held executive positions at iSOFT Group Ltd (listed on the Australian Securities Exchange), SIAC Group and Viridan Group and was involved in the successful restructuring of Nakheel PJSC, the real estate arm of Dubai World. Ron is currently appointed as non-executive director at Office Team. Ron is a member of the Remuneration Committee and the Nomination Committee.

**Mike Russell, Independent Non-Executive Director**

Mike Russell was appointed Non-Executive Director of Clipper's former parent company with effect from 3 January 2011, and was appointed Non-Executive Director of the Company on 16 May 2014. He qualified as a Chartered Certified Accountant with a subsidiary of Imperial Chemical Industries, following which he held the position of Finance Director of a subsidiary of Allied Lyons plc. He joined Asda Stores Ltd as Chief Accountant in 1986 and subsequently became Finance Director of the Stores Division. He was appointed Group Finance Director of Nurdin & Peacock plc, a FTSE 250 company, in early 1996 prior to the sale of the business to Booker plc. From 1997 to 2011 he was an executive director of Prize Food Group, a private equity-backed business, initially as Group Finance Director and, from 2005, as Chief Executive Officer. Mike is chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee.

# Corporate Governance Report

### Chairman's introduction

Dear Shareholder,
Clipper listed its Ordinary Shares on the main market of the London Stock Exchange on 4 June 2014 ("Admission" date). The Listing Rules of the Financial Conduct Authority, including the UK Corporate Governance Code (the "Code"), have only therefore applied to the Company since that date. In the months leading up to the listing, the Board implemented a number of measures to ensure compliance with the Code, in particular, provisions relating to the composition of the Board and its principal Committees. On Admission, the Board committed itself to the highest standards of corporate governance and to maintain a sound framework for the control and management of the Group. Since the Company only recently listed, it is not practicable to expect full compliance with the provisions of the Code, therefore the Company did not comply with the nine provisions of the Code for the year ended 30 April 2014. Accordingly, this report includes a description of how the Company has applied the principles and provisions of the Code since 4 June 2014 and how it intends to apply those principles throughout the remainder of 2014 and into 2015.

**Steve Parkin**
**Executive Chairman**

### Compliance with the UK Corporate Governance Code 2012

The Board is committed to maintaining high standards of corporate governance and maintaining a sound framework for the control and management of the Group.

The UK Corporate Governance Code 2012 (the "Code") applies to financial years beginning on or after 30 September 2012. A copy of the Code can be found at www.frc.co.uk.

This Report, which incorporates reports from the Audit and Nomination Committees on pages 38 to 43 together with the Strategic Report on pages 4 to 29, the Directors' Remuneration Report on pages 44 to 65 and the Directors' Report on pages 66 to 69, describes how the Company has applied the relevant principles of the Code.

### The role of the Board

As at the Admission date, the Board consists of 4 Non-Executive Directors and 4 Executive Directors. Biographies of all members of the Board appear on pages 32 and 33.

The Board is responsible for leading and controlling the Group and has overall authority for the management and conduct of the Group's business, strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal control and risk management (including financial, operational and compliance controls and for reviewing the overall effectiveness of systems in place) and for the approval of any changes to the capital, corporate and/or management structure of the Group.

The Board delegates to management the day-to-day running of the business within defined risk parameters. Board meetings are scheduled to coincide with key events in the corporate calendar and in future this will include the interim and final results and annual general meeting.
The Board has adopted a formal schedule of matters reserved for its approval and has delegated other specific responsibilities to its Committees. This schedule sets out key aspects of the affairs of the Company which the Board does not delegate, including key strategic, operational and financial issues.

All Directors have access to the advice and services of the Company Secretary who has responsibility for ensuring compliance with the Board's procedures. All the Directors have the right to have their opposition to or concerns over any Board decision noted in the minutes. The Board has adopted guidelines by which Directors may take independent professional advice at the Company's expense in the performance of their duties.

### Conflicts of interests

In line with the requirements of the Companies Act, each Director has notified the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These were considered and approved by the Board in accordance with the Company's Articles of Association and each Director informed of the authorisation and any terms on which it was given. The Board has formal procedures to deal with Directors' conflicts of interest. The Board reviews and, where appropriate, approves certain situational conflicts of interest that were reported to it by Directors, and a register of those situational conflicts is maintained and will be reviewed by the Board going forward.

# Corporate Governance Report

continued

### Directors' indemnities

The Articles of Association of the Company require it to indemnify officers of the Company, including officers of wholly-owned subsidiaries, against liabilities arising from the conduct of the Group's business, to the extent permitted by law. The Group has therefore purchased directors' and officers' liability insurance during the year.

### Board Committees

Subject to those matters reserved for its decision, the Board has delegated to its Audit, Nomination and Remuneration Committees certain authorities. There are written terms of reference for each of these Committees, available on request from the Company Secretary, and separate reports for each Committee are included in this Annual Report and Accounts from pages 38 to 65.

### Role of the Chairman and Chief Executive

The Board is chaired by Steve Parkin. The Chairman is responsible for the effective leadership of the Board, having regard for the interests of all stakeholders and promoting high standards of corporate governance. Tony Mannix is the Chief Executive Officer and is responsible for implementing the Board's strategy and leading the senior management team. The role is distinct and separate to that of Chairman and clear divisions of accountability and responsibility have been agreed by the Board.

### Role of the Senior Independent Director (SID)

The Code recommends that the Board of Directors of a Company with a premium listing on the Official List should appoint one of the Non-Executive Directors to be the Senior Independent Director to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors when necessary. The Senior Independent Director should be available to shareholders if they have concerns which contact through the normal channels of the Chairman, CEO or other Executive Directors has failed to resolve or for which such contact is inappropriate. Paul Hampden Smith has been appointed Senior Independent Director.

### Board balance and independence

The Code recommends that at least half the Board of Directors of UK listed companies, excluding the chairman, should comprise Non-Executive Directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement.

The Board regards all of the Non-Executive Directors as Independent Non-Executive Directors within the meaning of the Code and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Board believes that the current directorate will enhance considerably its ability to develop the Group's operations.

### Role of the Company Secretary

Paul White is the Company Secretary. The role of the Company Secretary is to develop, implement and maintain good corporate governance practices. This includes supporting the Chairman and Non-Executive Directors as appropriate, managing Board and Board Committee meetings, ensuring that appropriate levels of directors' and officers' insurance is in place and that the Group is compliant with statutory and regulatory requirements.

### Information, meetings and attendance

The Board has a full programme of Board meetings planned for 2014 and 2015. At these meetings, the Board will review the Group's long-term strategic direction and financial plans and monitor on a regular basis the Group's performance against an agreed strategy and business plan.

In addition, the Board will agree key objectives for the Group on an annual basis and will then monitor performance against these objectives.

The Board has an agreed procedure for dealing with conflicts of interest in relation to matters which are scheduled for Board consideration.

The Chairman is responsible for ensuring that the Directors receive accurate, timely and clear information. Prior to each scheduled Board meeting, a pack is circulated in respect of each financial period, which includes an update on key performance targets, trading performance against budget and includes detailed financial data and analysis. Board packs are generally distributed seven days prior to each meeting to provide sufficient time for Directors to review their papers in advance. If Directors are unable to attend a Board meeting for any reason, they nonetheless receive the relevant papers and are consulted prior to the meeting and their views made known to the other Directors.

### Development

In preparation for Admission, all Directors received an induction briefing from the Group's legal advisor, DWF, on their duties and responsibilities as Directors of a publicly quoted company. In addition, the new Non-Executive Directors received full presentations, including the IPO roadshow.

# Corporate Governance Report

continued

### Board evaluation

Given that a majority of the Non-Executive Directors were only appointed in the months immediately preceding the listing in June 2014, the Board believes that a meaningful evaluation of the Board can only take place after it has been working together for a reasonable time. An evaluation policy will be developed and implemented before the end of 2014. The Senior Independent Director, Paul Hampden Smith, will evaluate the performance of the Chairman, who has been in post since inception of the Company.

### Election of Directors

The Board can appoint any person to be a Director, either to fill a vacancy or as an addition to the existing Board provided that the total number of Directors does not exceed 12, the maximum prescribed in the Company's Articles of Association. Any Director so appointed by the Board shall hold office only until the next following annual general meeting and shall then be eligible for election by the shareholders.

In accordance with the Articles of Association, at every annual general meeting of the Company one-third of the Directors or the number nearest to but not exceeding one-third shall retire from office. The Directors to retire shall be first those who wish to retire, and then those who have been longest in office since their last appointment or re-appointment. When a Director retires at an Annual General Meeting in accordance with the Articles, the Company may, by ordinary resolution at the meeting, fill the office being vacated by re-electing the retiring Director. If the Company does not fill the vacancy at the meeting, the retiring Director shall nevertheless be deemed to have been re-elected, except in the cases identified by the Articles. The Company intends to continue this practice but will review it regularly.

In the meantime, the forthcoming Annual General Meeting will be the first since the Company re-registered as a public company on 15 May 2014. Accordingly, all the Directors will be offering themselves for election at the AGM to be held at Clipper Logistics, Gelderd Road, Leeds, LS12 6LT on 29 September 2014 at 11.00am full details of which are set out in the notice of meeting accompanying this Annual Report.

As noted above, the current Board has been in post for only a short period of time and so a formal evaluation of the performance of the Board, its principal Committees and the individual Directors would be of limited value. However, pending the development and implementation of a formal evaluation process during 2014, the Board is satisfied that each Director remains competent to discharge his responsibilities as a member of the Board.

### External appointments

The Executive Directors may accept outside appointments provided that such appointments do not in any way prejudice their ability to perform their duties as Executive Directors of the Company. None of the Executive Directors currently hold any such outside appointments.

The Non-Executive Directors' appointment letters are not specific about the maximum time commitment, recognising that there is always the possibility of an additional time commitment and ad hoc matters that may arise from time to time, particularly when the Group is undergoing a period of increased activity. The average time commitment inevitably increases where a Non-Executive Director assumes additional responsibilities such as being appointed to a Board Committee or as a Non-Executive Director on the boards of any of the Company's subsidiaries.

# Nomination Committee Report

### Committee Chairman's introduction

The Nomination Committee is responsible for identifying and nominating candidates for the approval of the Board to fill Board vacancies and to keep under review the balance of skills, knowledge and experience on the Board to ensure the orderly evolution of the membership of the Board and to make recommendations to the Board on composition and balance.

The Nomination Committee will be proactive in discharging these responsibilities, cognisant of the importance of succession planning and the need to align Board and executive leadership skills to the Group's long-term strategy.

Prior to the publication of the prospectus, the Board met on 16th May 2014 to consider the appointments of new Directors. Accordingly, Paul Hampden Smith, Mike Russell, Stephen Robertson and Ron Series were appointed to the Board with effect from 16 May 2014.

### Composition

The UK Corporate Governance Code recommends that a majority of the members of a nomination committee should be independent Non-Executive Directors. The Nomination Committee is chaired by Steve Parkin and its other members are Ron Series and Mike Russell. The Nomination Committee will meet not less than twice a year.

### Roles and responsibilities

The Nomination Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any Committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or Committee members as the need may arise. The Nomination Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and Committees of the Board, retirements and appointments of additional and replacement Directors and Committee members and makes appropriate recommendations to the Board on such matters.

### What the Nomination Committee did in 2014

Following consultation by Steve Parkin, Chairman, with the sponsor and major shareholders regarding its composition, a Nomination Committee was established by a resolution of the Board dated 16th May 2014, at which meeting terms of reference were considered and adopted.

### Diversity

Whilst the Group pursues diversity, including gender diversity, throughout the business, and the Board endorses the aspirations of the Davies Review on Women on Boards, the Board is not committing to any specific targets. Instead, the Board will engage executive search firms who have signed up to the voluntary code of conduct setting out the seven key principles of best practice to abide by throughout the recruitment process and will continue to follow a policy of appointing talented people at every level to deliver high performance. The Board will also ensure that its own development in this area is consistent with its strategic objectives and enhances Board effectiveness.

### Remuneration Committee

The Directors' Remuneration Report can be found on pages 44 to 65. This Report has been prepared in accordance with the new regulations governing the way in which Directors' remuneration is voted upon and includes details of the role and composition of the Remuneration Committee.

### Audit Committee

The Audit Committee report can be found on pages 40 to 43.

### Relations with shareholders

As part of the IPO roadshow in 2014, the Board met a large number of investors in the United Kingdom. The meetings involved the Chairman, Chief Executive Officer and Chief Financial Officer.

As part of its future investor relations programme, the Group will aim to maintain an active dialogue with its key stakeholders including institutional investors to discuss issues relating to the performance of the Group including strategy and new developments. The Non-Executive Directors are available to discuss any matter stakeholders might wish to raise.

Investor relations activity and a review of the share register are standing items on the Board's agenda. Reports from analysts and brokers are circulated to the Board. The Chairman and Non-Executive Directors are available to attend investor relations meetings or to request meetings with investors or analysts independent of the Group's management if required.

**Annual General Meeting**

The Company's first Annual General Meeting since Admission will take place on 29 September 2014 at 11.00am, at Clipper Logistics, Gelderd Road, Leeds, LS12 6LT and the chairmen of each of the Board's Committees will be present to answer questions put to them by shareholders. The Annual Report and Accounts and Notice of the Annual General Meeting will be sent to shareholders at least 20 working days prior to the date of the meeting.

To encourage shareholders to participate in the AGM process, the Company proposes to offer electronic proxy voting through the CREST service and all resolutions will be proposed and voted on at the meeting on an individual basis by shareholders or their proxies. Voting results will be announced through the Regulatory News Service and made available on the Company's website.

By order of the Board.

**Steve Parkin**
**Executive Chairman**

# Audit Committee Report

### Committee Chairman's introduction

The Audit Committee was established by a resolution of the Board dated 16 May 2014, at which meeting terms of reference were considered and adopted. The Board further resolved to appoint Mike Russell and Stephen Robertson to the Audit Committee under my chairmanship. Under its terms of reference, the Audit Committee is required to meet at least three times in each year at appropriate times in the reporting and auditing cycle. Following Admission, the Audit Committee has met twice.

The primary function of the Audit Committee is to assist the Board in fulfilling its responsibilities to protect the interests of the shareholders with regard to the integrity of the financial reporting, audit, risk management and internal controls.

In this report, I explain how the Audit Committee has discharged these responsibilities, with specific reference to the requirement of the UK Corporate Governance Code, (the "Code") to address significant financial statement reporting issues and to explain how the Audit Committee assessed external audit effectiveness and safeguards in relation to the provision by the auditor of non-audit services.

### Composition

The Code recommends that an Audit Committee should comprise at least 3, or in the case of smaller companies, 2 independent Non-Executive Directors (other than the chairman) and that at least 1 member should have recent and relevant financial experience. The Audit Committee is chaired by Paul Hampden Smith and its other members are Mike Russell and Stephen Robertson. By virtue of their former executive roles, details of which are set out on page 33, the Directors consider that Paul Hampden Smith and Mike Russell have recent and relevant financial experience. The Company is therefore compliant with the Code in this regard. The Chief Financial Officer and Company Secretary attend meetings of the Audit Committee by invitation.

### Roles and responsibilities

The Audit Committee assists the Board in discharging its responsibilities with regard to:

- Agreeing the scope of the annual audit and the annual audit plan and monitoring the same;
- Monitoring, making judgements and recommendations on the financial reporting process and the integrity and clarity of the Group's Financial Statements;
- Considering the appointment of the Group's Auditors and their remuneration including reviewing and monitoring independence and objectivity and agreeing and monitoring the extent of the non-audit work that may be undertaken; and
- Reviewing and monitoring the adequacy and effectiveness of the internal control and risk management policies.

The Audit Committee will give due consideration to laws and regulations, the provisions of the Code and the requirements of the Listing Rules.

The ultimate responsibility for reviewing and approving the Annual Report and Financial Statements and the half-yearly reports remains with the Board.

The Board has requested that the Audit Committee advise them in ensuring that the Financial Statements, when taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

### Activities of the Audit Committee

As explained above, the Audit Committee met twice following Admission. In June, the Audit Committee discussed with the external auditor the audit planning report, with particular reference to significant risks highlighted in the planning document, together with the audit scope and timetable. In August, the Audit Committee discussed the progress of the audit and reviewed the draft auditors report. On 28 August 2014, the Audit Committee reviewed and approved for consideration by the Board the financial results for the year ended 30 April 2014. As part of that review process, the members of the Audit Committee were provided with a draft of the full Annual Report enabling them to ensure that the numbers therein are consistent with those in the Financial Statements or are sourced from appropriate data. More importantly, the Audit Committee assessed whether the words used were consistent with their understanding of the Group's business obtained through Board and Audit Committee meetings and other interaction they had had with management, using their experience to assess whether the Annual Report taken as a whole is fair, balanced and understandable. This additional review by the Audit Committee, supplemented by advice received from external advisors during the drafting process assisted the Board in determining that the report is fair, balanced and understandable at the time that it is approved. The Audit

# Audit Committee Report

continued

Committee considered the appropriateness of preparing the Financial Statements on a going concern basis, including consideration of forecast plans and supporting assumptions and concluded that the Group's financial position was such that it continued to be appropriate for the Financial Statements to be prepared on a going concern basis.

## Significant issues considered in relation to the Financial Statements

The Audit Committee, together with the Board considered what were the significant risks and issues in relation to the Financial Statements and how these would be addressed.

### Revenue Recognition

- The Group has a multiplicity of complex contract mechanisms. As a result there could be a risk of misstatement of revenue.
- To mitigate this risk, the revenue recognition methodology adopted is kept under regular review to ensure that it remains appropriate.

### Accounting for the re-organisation of the Group

- Prior to Admission, in April 2014, a reorganisation of the Group was carried out. As a result of this corporate restructure, the preparation of the Financial Statements became more complex than would ordinarily be the case.
- The accounting and related disclosures were therefore subject to additional reviews by the Audit Committee and Chief Financial Officer.

### Classification of discontinuing head office costs

- Certain costs have been classified as discontinuing post Admission.
- We have considered and reviewed the treatment of such costs to ensure that they are correctly classified and disclosed in the Financial Statements.

## Assessment of effectiveness of external audit

The Audit Committee oversees the relationship with the external auditors and considers the re-appointment of the Group's auditors, Ernst & Young LLP, before making a recommendation to the Board to be put to shareholders.

As Admission occurred after the Group's financial year end, on 4 June 2014, Ernst & Young LLP had already been appointed as auditor, and the audit plan agreed. However, the Audit Committee met subsequent to Admission, and approved the audit plan for the year ended 30 April 2014 and reviewed the auditor's findings and management representation letters.

Prior to recommending the appointment of Ernst & Young LLP at the forthcoming AGM to the Board, the Audit Committee conducted a review of the external auditor's performance and ongoing independence taking into consideration input from management, consideration of responses to questions from the Audit Committee and the audit findings reported to the Audit Committee. Based on this information, the Audit Committee concluded that the external audit process had been efficiently run and that Ernst & Young LLP continued to prove effective in its role as external auditor.

## Independence safeguards

In accordance with best practice and professional standards, external auditors are required to adhere to a rotation policy whereby the audit engagement partner is rotated after 5 years. The current audit engagement partner was appointed in 2014. The external auditors are also required periodically to assess whether, in their professional opinion, they are independent and those view are shared with the Audit Committee.

The Audit Committee has authority to take independent advice as it deems appropriate in order to resolve issues on auditor independence. No such advice has to date been required.

## Independence assessment by the Audit Committee

Based on the fact that the audit engagement partner rotation policy has been complied with, and separate external firms are engaged for taxation advisory services, the Audit Committee is satisfied that the independence of Ernst & Young LLP is not impaired.

Furthermore, Ernst & Young LLP has provided an independence report to the Audit Committee, in which they have confirmed that they are independent, that their objectivity is not compromised, and that they have complied with the Auditing Practices Board's Ethical Standards (including in relation to the supply of non-audit services).

The Audit Committee noted that Ernst & Young LLP had been appointed as Reporting Accountants for the IPO transaction prior to their appointment as external auditor for the Group.

The Audit Committee has assessed the performance and independence of the external auditor and recommended to the Board the re-appointment of Ernst & Young LLP as auditor until the conclusion of the AGM in 2015.

## Internal audit

The Board has considered the benefits that an internal audit function might bring to the Group. They have concluded that, due to the tight financial controls in place across the Group, and the close management of financial matters by the Executive Directors, an internal audit function would not currently provide additional assurance.

# Audit Committee Report

continued

In terms of operational matters, the specialised nature of the Group's activities means that a non-specialist internal audit function would not provide additional comfort over the Group's operational management. The Board will continue to evaluate this matter, and the Audit Committee will formally consider the issue annually.

## Internal control and risk management

The Board is responsible for the overall system of internal controls for the Group and for reviewing its effectiveness. It carries out such a review at least annually, covering all material controls including financial, operational and compliance controls and risk management systems.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Operating policies and controls are in place and have been in place throughout the financial year under review, and cover a wide range of issues including financial reporting, capital expenditure, information technology, business continuity and management of employees.

Detailed policies ensure the accuracy and reliability of financial reporting and the preparation of the Financial Statements, including the consolidation process. The key elements of the Group's ongoing processes for the provision of effective internal control and risk management systems, in place throughout the year and at the date of this report, include:

- Regular Board meetings to consider matters reserved for the Directors' consideration;
- Regular management reporting, providing a balanced assessment of key risks and controls;
- An annual Board review of corporate strategy, including a review of material business risks and uncertainties facing the business;
- Established organisational structure with clearly defined lines of responsibility and levels of authority;
- Documented policies and procedures; and
- Regular review by the Board of financial budgets, forecasts and covenants with performance reported to the Board monthly.

In reviewing the effectiveness of the system of internal controls, the Audit Committee will, going forward, receive self-assurance statements from the Operational Directors and senior managers responsible for the principal business units confirming that controls and risk management processes in their business units have been operated satisfactorily. These returns will be reviewed by the Audit Committee and challenged where appropriate. The CFO will be responsible for compiling and maintaining a risk register to monitor all of the risks facing the business. The key risks will then be summarised for review and approval by the Audit Committee for inclusion in the Annual Report. In addition, the Audit Committee will also regularly review the financial and accounting controls.

In respect of the Group's financial reporting, the finance department is responsible for preparing the Group Financial Statements using a well-established consolidation process and ensuring that accounting policies are in accordance with International Financial Reporting Standards. All financial information published by the Group is subject to the approval of the Audit Committee.

There have been no changes in the Group's internal controls during the financial year under review that have materially affected, or are reasonably likely to materially affect, the Group's control over financial reporting.

The Board, with advice from the Audit Committee, is satisfied that effective systems for internal control and risk management are in place which enable the Group to identify, evaluate and manage key risks, and which accord with the guidance of the Turnbull Committee on internal control updated by the FRC in 2005. These processes have been in place throughout the financial year and up to the date of approval of the Financial Statements. Further details of risk management frameworks and specific material risks and uncertainties facing the business can be found on pages 26 and 27.

## Whistleblowing

The Group has in place a Whistleblowing Policy which encourages employees to report any malpractice or illegal acts or omissions or matters of similar concern by other employees or former employees, contractors, suppliers or advisors using a prescribed reporting procedure. The Whistleblowing Policy is complemented by an Anti-bribery and Corruption Policy, and a Gifts and Entertainment Policy.

These policies facilitate the reporting of any ethical wrongdoing or malpractice or suspicion which may constitute ethical wrongdoing or malpractice. Examples include bribery, corruption, fraud, dishonesty and illegal practices which may endanger employees or third parties.

There have been no instances of whistleblowing during the year under review.

## Accountability

The Board is required to present a fair, balanced and understandable assessment of the Company's financial position and prospects. The responsibilities of the Directors and external auditor are set out on pages 70 and 74 respectively.

**Paul Hampden Smith**
**Chairman, Audit Committee**

# Directors' Remuneration Report

**Committee Chairman's introduction**

On behalf of the Board, I am pleased to present the first Directors' Remuneration Report which Clipper has prepared following its Admission in June 2014.

The year to 30 April 2014 was a very significant year for Clipper, covering the period in which the Company was preparing for its IPO. As set out more fully in the Strategic Report, the Group's operating and financial performance remained strong and provides a good platform for future growth.

By reporting on a financial year during which the Company was unlisted, the Remuneration Report for this year inevitably shows a position of transition in terms of the payments made to Directors. The Remuneration Report also sets out the proposed Directors' Remuneration Policy which, if approved at our 2014 AGM, will apply to all payments made to our Directors for up to three years from that date.

This report contains the material required to be set out as the Directors' Remuneration Report for the purposes of Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which amended The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the DRR regulations").

Section 1 represents the Directors' Remuneration Policy. This Policy will take effect, subject to the approval of the shareholders, immediately after the 2014 AGM.

Section 2 contains the implementation sections of the Remuneration Report ("Implementation Report"). The auditors have reported on certain parts of the Implementation Report and stated whether, in their opinion, those parts have been properly prepared in accordance with the Companies Act 2006. Those parts of the Implementation Report which have been subject to audit are clearly indicated.

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# Directors' Remuneration Report

continued

In anticipation of Admission, the Remuneration Committee undertook a review of the Group's Remuneration Policy for senior management, including the Executive Directors, in order to ensure that it is appropriate for the listed company environment.

Overall, the Directors' Remuneration Policy maintains a high level of consistency with the Group's outlook on pay from before Admission, acknowledging that many roles within the senior management team have not fundamentally changed. However, while ensuring that no more is paid than is necessary, the new policy does take account of the changes in the Group's structure brought about by Admission, and appropriate but not excessive annual and long-term incentives have been introduced.

The aim of the Directors' Remuneration Policy is to provide an appropriate pay structure for the Executive Directors to ensure their retention and to continue to focus them on delivering strong financial performance. The Group has a strong 'team culture' and accordingly there is consistency in how packages are structured across the whole senior management team, with the intention being that all Executive Directors and senior managers should participate in the same annual incentive plan and long-term incentive plan from Admission, and with all of the team being incentivised on the same performance measures.

While market practice amongst FTSE SmallCap companies has been considered in setting the Directors' Remuneration Policy, the Company has viewed this information as a reference point and not as an inflexible framework to be followed without robust challenge.

**Key aspects of the Policy include:**

- Base salaries will be reviewed as appropriate following Admission, but no more frequently than annually.
  In reviewing base salaries, the policy is for any increases to take close account of the increases awarded to the workforce as a whole, as well as the performance of the Group and the individual.

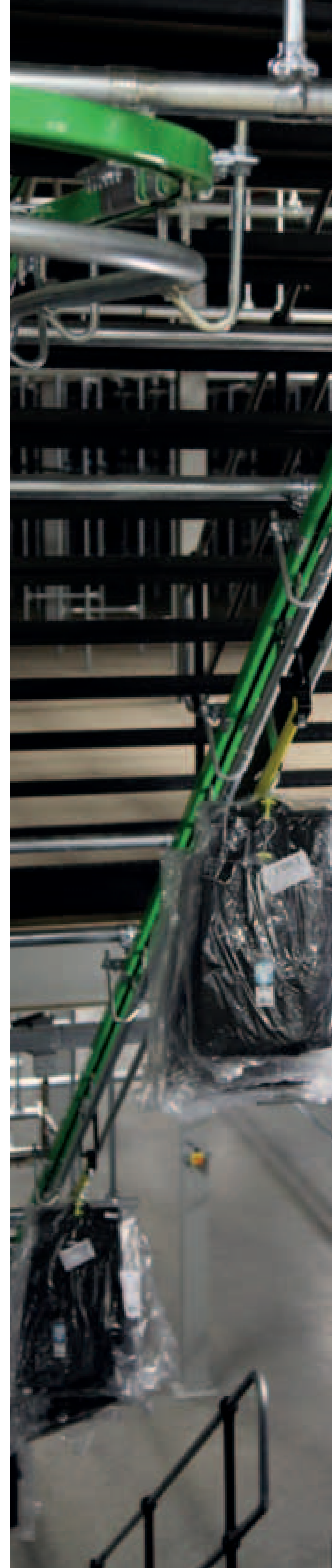
- Pension contributions and benefits in kind are generally unchanged from pre-Admission levels.

- Executive Directors and senior managers will be eligible to participate in an annual incentive plan ("AIP"), which will be subject to the achievement of stretching performance conditions which will be set by the Remuneration Committee at the beginning of each financial year. In the year to 30 April 2015 the AIP performance condition will be based on Adjusted EBIT targets. AIP outcomes will be paid in cash and will be capped at 50% of base salary for the Executive Directors.

- If approved by shareholders at the AGM, long-term incentives will be delivered through the Performance Share Plan ("PSP"). The Remuneration Committee's intention is to grant Executive Directors PSP awards annually, with the value of shares subject to awards being capped at 150% of base salary per annum, with an award of 100% for the first grant. The performance conditions for initial awards will require the achievement of stretching earnings per share (EPS) growth targets over 3 financial years commencing with the financial year ending 30 April 2015.

- Clawback provisions can be applied to AIP and PSP outcomes, consistent with best practice.

- Within our policy we have also been clear as to the maximum caps which the new reporting regulations require that we state for each element of pay - we will operate within these caps for the duration of the policy period. It should be noted that any caps higher than current levels of pay are only there to provide suitable flexibility and will not lead to an automatic inflationary impact.



# Directors' Remuneration Report

continued

**Format of the Report and matters to be approved at our AGM**

The regulations governing the Directors' remuneration reports of listed companies require that we split our report into two sections: the Policy Report sets out the Group's forward-looking Directors' Remuneration Policy and the separate Implementation Report gives details of the payments made to Directors in the year ended 30 April 2014, as well as other required disclosures.

**At our 2014 AGM there will be a number of votes on remuneration matters:**

- a vote on the Directors' Remuneration Policy as set out in Part A of this Remuneration Report;
- a vote on the remaining implementation sections of this Remuneration Report, as set out in Part B;
- a vote to approve the PSP;
- a vote to approve the all-employee Sharesave Plan; and
- a vote to authorise the participation of three of our Executive Directors in the PSP in accordance with the requirements of the Takeover Panel for "Concert Parties", and to give the same approval in respect of the Sharesave Plan.

The Remuneration Committee believes it is important that all of these votes are passed by shareholders to ensure that our Directors' Remuneration Policy can operate as intended. The Policy has been proposed to achieve a very high degree of consistency of treatment for all of the senior management team. Consistency of treatment and alignment within our team is something which the Remuneration Committee regard as very important to ensure that the strong team culture within the Group continues. This culture is a key reason why the Group has performed so positively to date, and we believe that appropriately structured remuneration arrangements for our senior management team can make a positive contribution to drive continued good performance.

The Remuneration Committee hopes that you will support our approach to the challenges that we will face on remuneration matters as we transition to a listed company. The Remuneration Committee is confident that the Remuneration Policy is the correct one for the Group in its next stage of development and hopes that it can rely on the support of shareholders for all of the remuneration-related resolutions at the 2014 AGM.

**Mike Russell**
**Chairman, Remuneration Committee**

# Directors' Remuneration Policy

The Directors' Remuneration Policy as set out in this section of the Remuneration Report will take effect for all payments made to Directors from the date of the AGM, which will be held on 29 September 2014.

| Element and purpose | Policy and operation | Maximum | Performance measures |
|---|---|---|---|
| **Base salary**<br>This is the core element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution. | Base salaries will be reviewed each year by the Remuneration Committee.<br><br>The Remuneration Committee does not strictly follow data but uses it as a reference point in considering, in its judgment, the appropriate level of salary having regard to other relevant factors including corporate and individual performance and any changes in an individual's role and responsibilities.<br><br>Base salary is paid monthly in cash. | In the normal course of events, the Executive Directors' salaries would not normally be increased by more than the average awarded to staff generally. However, given the need for a formal cap under the DRR regulations, the Remuneration Committee has further limited the maximum salary which it may award to £450,000 for the Executive Chairman, and for all other Executive Directors to the median salary level plus 10% for that role in the FTSE SmallCap. | N/A |
| **Benefits**<br>To provide benefits valued by recipients. | The Executive Directors may receive a car allowance or company car, fuel allowance, private family medical cover and insurance benefits.<br><br>The Remuneration Committee reserves discretion to introduce new benefits where it concludes that it is appropriate to do so, having regard to the particular circumstances and to market practice.<br><br>Where appropriate, the Group will meet certain costs relating to Executive Director relocations. | It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year, but the provision of benefits will operate within an annual limit of £100,000 (plus a further 100% of base salary in the case of relocations).<br><br>The Remuneration Committee will monitor the costs in practice and ensure that the overall costs do not increase by more than the Remuneration Committee considers appropriate in all the circumstances. | N/A |

# Directors' Remuneration Policy

continued

| Element and purpose | Policy and operation | Maximum | Performance measures |
|---|---|---|---|
| **Pension**<br>To provide retirement benefits. | Executive Directors can receive pension contributions to personal pension arrangements, or if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance can be paid as a cash supplement. | The maximum employer's contribution is limited to 15% of base salary. | N/A |
| **Annual Incentive Plan ("AIP")**<br>To motivate executives and incentivise delivery of performance over a one-year operating cycle, focusing on the short- to medium-term elements of our strategic aims. | AIP levels and the appropriateness of measures are reviewed annually at the commencement of each financial year to ensure they continue to support our strategy.<br><br>Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions where the Remuneration Committee considers it to be necessary in its opinion to make appropriate adjustments.<br><br>AIP outcomes are paid in cash following the determination of achievement against performance measures and targets.<br><br>Malus and clawback provisions apply to the AIP as explained in more detail in the notes to this table. | The maximum level of AIP outcomes is 50% of base salary p.a. for the duration of this Policy. | The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Remuneration Committee considers appropriate.<br><br>Details of the proposed performance measures for the year ending 30 April 2015 are set out in the notes to this table.<br><br>Attaining the threshold level of performance for any measure will not produce a pay-out of more than 20% of the maximum portion of overall AIP attributable to that measure, with a sliding scale to full pay-out for maximum performance.<br><br>However, the AIP remains a discretionary arrangement and the Remuneration Committee retains a standard power to apply its judgment to adjust the outcome of the AIP for any performance measure (from zero to any cap) should it consider that to be appropriate. |

# Directors' Remuneration Policy

continued

| Element and purpose | Policy and operation | Maximum | Performance measures |
|---|---|---|---|
| **Long-Term Incentives ("LTI")**<br>To motivate and incentivise delivery of sustained performance over the long-term, and to promote alignment with shareholders' interests, the Group intends to operate a Performance Share Plan ("PSP").<br><br>Shareholders' approval for the PSP is being sought at the 2014 AGM. | Awards under the PSP may be granted as nil-cost options or conditional awards of shares which vest to the extent performance conditions are satisfied over a period of at least three years.<br><br>Under the PSP rules, vested awards may also be settled in cash.<br><br>The PSP rules allow that the number of shares subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any dividend dates falling between the grant of awards and the vesting of awards. Whilst this feature will not operate for awards to be made in 2014, the Remuneration Committee retains discretion to introduce this feature during the period of this policy.<br><br>Malus and clawback provisions apply to PSP awards and are explained in more detail in the notes to this table. | The PSP allows for awards over shares with a maximum value of 150% of base salary per financial year.<br><br>The Remuneration Committee expressly reserves discretion to make such awards as it considers appropriate within these limits. | The Remuneration Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual).<br><br>Details of the proposed performance measures for the initial awards are set out in the notes to this table.<br><br>Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Remuneration Committee's opinion, make it appropriate to substitute, vary or waive the performance conditions in such manner as the Remuneration Committee thinks fit.<br><br>Performance periods may be over such periods as the Remuneration Committee selects at grant, which will not be less than (but may be longer than) 3 years.<br><br>No more than 25% of awards vest for attaining the threshold level of performance conditions. |
| **Share Ownership Guidelines**<br>To further align the interests of Executive Directors with those of shareholders. | Executive Directors are expected to retain all of the ordinary shares vesting under the PSP, after any disposals for the payment of applicable taxes, until they have achieved the required level of shareholding. | 100% of salary for all Executive Directors.<br><br>The Remuneration Committee reserves the power to amend (but not reduce) these levels in future years. | N/A |

# Directors' Remuneration Policy

continued

| Element and purpose | Policy and operation | Maximum | Performance measures |
|---|---|---|---|
| **All-employee share plans**<br>To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.<br><br>Shareholders' approval is being sought at the 2014 AGM for the Clipper Sharesave Plan ("Sharesave Plan"). | The Sharesave Plan is an all-employee share plan established under the HMRC tax-advantaged regime and follows the usual form for such plans.<br><br>Executive Directors are able to participate in all-employee share plans on the same terms as other Group employees. | The exercise price of the options is usually equal to the market price of the shares at the date of invitation to participate less a maximum discount of 20%.<br><br>The maximum amount that can be invested in the plan will not exceed the statutory limit from time to time (currently £500 pcm).<br><br>The options vest on the third anniversary of the commencement of the savings period. | Consistent with normal practice, such awards are not subject to performance conditions. |
| **Non-Executive Director fees**<br>To enable the Group to recruit and retain Non-Executive Directors of the highest calibre, at the appropriate cost. | The fees paid to Non-Executive Directors aim to be competitive with other fully listed companies of equivalent size and complexity.<br><br>The fees payable to the Non-Executive Directors are determined by the Board.<br><br>Non-Executive Directors will not participate in any new share incentive arrangements from Admission, although commitments made under pre-Admission plans will continue to be honoured. | Fees are paid monthly in cash.<br><br>Any increases made will be appropriately disclosed. | N/A |

# Directors' Remuneration Policy

continued

## Notes to the Policy table

**1.AIP performance measures to apply in the Financial Year to 30 April 2015 (for information and not part of the Directors' Remuneration Policy)**

The proposed performance measures and targets for the financial year to 30 April 2015 will be based on Adjusted EBIT. The Remuneration Committee selected Adjusted EBIT as the performance measure for the AIP for the year ending 30 April 2015 as it is regarded as a key performance indicator for the Group and focuses on the underlying operating profitability of the business by removing non-recurring items.

Given the competitive nature of the Group's sectors, the specific performance targets for the AIP are considered to be commercially sensitive and accordingly are not disclosed. Following the conclusion of the current financial year, the Remuneration Committee will consider whether it is feasible to disclose the performance targets for the current financial year on a retrospective basis.

**2.Performance conditions for PSP awards in 2014 (for information and not part of the Directors' Remuneration Policy)**

The first awards under the PSP are to be made shortly following the AGM, subject to the approval of the PSP by the Company's shareholders.

The performance measures and targets for the first PSP awards to be made in 2014 will be based on EPS performance for the financial year ending 30 April 2017, summarised as follows:

The Remuneration Committee selected this performance condition as it provides a significant level of growth in earnings which is a key measure of success for the Group.

**3.Malus and Clawback.**

Malus (being the forfeiture of unvested awards) and clawback (being the ability of the Company to claim repayment of paid amounts as a debt) provisions apply to the AIP and PSP if, in the opinion of the Remuneration Committee, any of the following has occurred:

- There has been a material misstatement of the Group's financial results which has led to an overpayment;
- The assessment of performance targets is based on an error or inaccurate or misleading information or assumptions;
- Circumstances warranting summary dismissal in the relevant period; or
- Any other act or omission that has had a sufficiently significant impact on the reputation of the Group to justify the operation of malus/clawback.

Amounts in respect of awards under both plans may be subject to clawback for up to three years post payment or vesting as appropriate.

**4.Stating maximum amounts for the Remuneration Policy**

The DRR regulations and related investor guidance encourages companies to disclose a cap within which each element of the Directors' Remuneration Policy will operate. Where maximum amounts for elements of remuneration have been set within the Directors' Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

**5.Travel and hospitality**

While the Remuneration Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality (whether paid for by the Group or another company) and business travel for Directors (and exceptionally their families) may technically come within the applicable rules and so the Remuneration Committee expressly reserves the right for the Remuneration Committee to authorise such activities within its agreed policies.

**6.Differences between the policy on remuneration for Directors from the policy on remuneration of other employees**

Where the Group's pay policy for Directors differs to its pay policies for groups of employees' this reflects the appropriate market rate position for the relevant roles. The Company takes into account pay levels, bonus opportunity and share awards applied across the Group as a whole when setting the Directors' Remuneration Policy.

| EPS - Financial year ending 30 April 2017 | PSP Award |
|---|---|
| 12p | 100% |
| Between 10p and 12p | Pro-rata on straight-line basis between 25% and 100% |
| 10p | 25% |
| Less than 10p | 0% |

# Directors' Remuneration Policy

continued

### Recruitment Remuneration Policy

The Group's recruitment Remuneration Policy aims to give the Remuneration Committee sufficient flexibility to secure the appointment and promotion of high-calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

In terms of the principles for setting a package for a new Executive Director, the starting point for the Remuneration Committee will be to apply the general Directors' Remuneration Policy for Executive Directors as set out above and structure a package in accordance with that Policy. Consistent with the DRR regulations, the caps contained within the Policy for fixed pay do not apply to new recruits, although the Remuneration Committee would not envisage exceeding these caps in practice.

The AIP and PSP will operate (including the maximum award levels) as detailed in the general policy in relation to any newly appointed Executive Director.

For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

For external and internal appointments, the Remuneration Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

For external candidates, it may be necessary to make additional awards or to buy-out awards forfeited by the individual on leaving a previous employer. For the avoidance of doubt, buy-out awards are not subject to a formal cap. Details of any recruitment-related or buy-out awards will be appropriately disclosed.

For any buy-outs the Company will not pay more than is, in the view of the Remuneration Committee, necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing AIP and PSP. It may, however, be necessary in some cases to make buy-out awards on terms that are more bespoke than the existing AIP and PSP.

All buy-outs, whether under the AIP, PSP or otherwise, will take account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Remuneration Committee will seek to make buy-outs subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Remuneration Committee may choose to relax this requirement in certain cases (such as where the service and/or performance requirements are materially completed, or where such factors are, in the view of the Remuneration Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited) and where the Remuneration Committee considers it to be in the interests of shareholders.

A new Non-Executive Director would be recruited on the terms explained above in respect of the main policy for such Directors.

# Directors' Remuneration Policy

continued

## Service contracts

### Executive Directors

The Remuneration Committee's policy is that each Executive Director's service agreement should be of indefinite duration, subject to termination by the Company or the individual on 12 months' notice. The service agreements of all Executive Directors comply with that policy. The service agreements reserve the right for the Company to make a payment in lieu of notice to an Executive Director for the amount of base salary plus benefits for the notice period. Such sums may be paid in instalments and would cease if the individual finds an alternative role. Contracts do not contain change of control provisions.

The Remuneration Committee reserves flexibility to alter these principles if necessary to secure the recruitment of an appropriate candidate and, if appropriate, introduce a longer initial notice period (of up to 2 years) reducing over time.

**The date of each Executive Director's contract is:**

| | |
|---|---|
| Steve Parkin | 30 May 2014 |
| Tony Mannix | 30 May 2014 |
| David Hodkin | 30 May 2014 |
| Sean Fahey | 30 May 2014 |

### Non-Executive Directors

Each Non-Executive Director is engaged for an initial period of three years. These appointments can be renewed following the initial three year term. These engagements can be terminated by either party on three months' notice.

The Non-Executive Directors cannot participate in the Company's share schemes from Admission, are not entitled to any pension benefits and are not entitled to any payment in compensation for early termination of their appointment.

**For each Non-Executive Director the effective date of their latest letter of appointment is:**

| | |
|---|---|
| Paul Hampden Smith | 16 May 2014 |
| Stephen Robertson | 16 May 2014 |
| Ron Series | 16 May 2014 |
| Mike Russell | 16 May 2014 |

# Directors' Remuneration Policy

continued

### Termination policy summary

It is appropriate for the Remuneration Committee to consider treatments on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatments that the Remuneration Committee may choose to apply under the discretions available to it under the terms of the AIP and PSP plans. The potential treatments on termination under these plans are summarised below:

| Incentives | If a leaver is deemed to be a 'good leaver'; for example, leaving through death or otherwise at the discretion of the Remuneration Committee | If a leaver is deemed to be a 'bad leaver'; for example, leaving for disciplinary reasons or to join a competitor | Other exceptional cases; e.g. change in control |
|---|---|---|---|
| **Annual Incentive Plan ("AIP")** | Remuneration Committee has discretion to determine AIP awards. | No awards made. | Remuneration Committee has discretion to determine AIP awards. |
| **Performance Share Plan** | Will receive a pro-rated award subject to the application of the performance conditions at the end of the normal performance period.<br><br>Remuneration Committee retains standard discretions to either vary time pro-rating or to allow vesting at the date of cessation (determining the performance conditions at that time). | All awards will normally lapse. | Will receive a pro-rated award subject to the application of the performance conditions at the date of the event, subject to standard Remuneration Committee discretions to vary time pro-rating. |

### External appointments

None of the Executive Directors serve as Non-Executive Directors on any external boards.

### Statement of consideration of employment conditions elsewhere in the Group

Pay and employment conditions generally in the Group are taken into account when setting Executive Directors' remuneration. The Remuneration Committee receives regular updates on overall pay and conditions in the Group, including (but not limited to) changes in base pay and any staff bonus pools in operation. There will also be oversight of the all-employee Sharesave scheme which Executive Directors and all other Group employees can participate in on the same terms and conditions.

The Company did not consult with employees in drawing up this Remuneration Report.

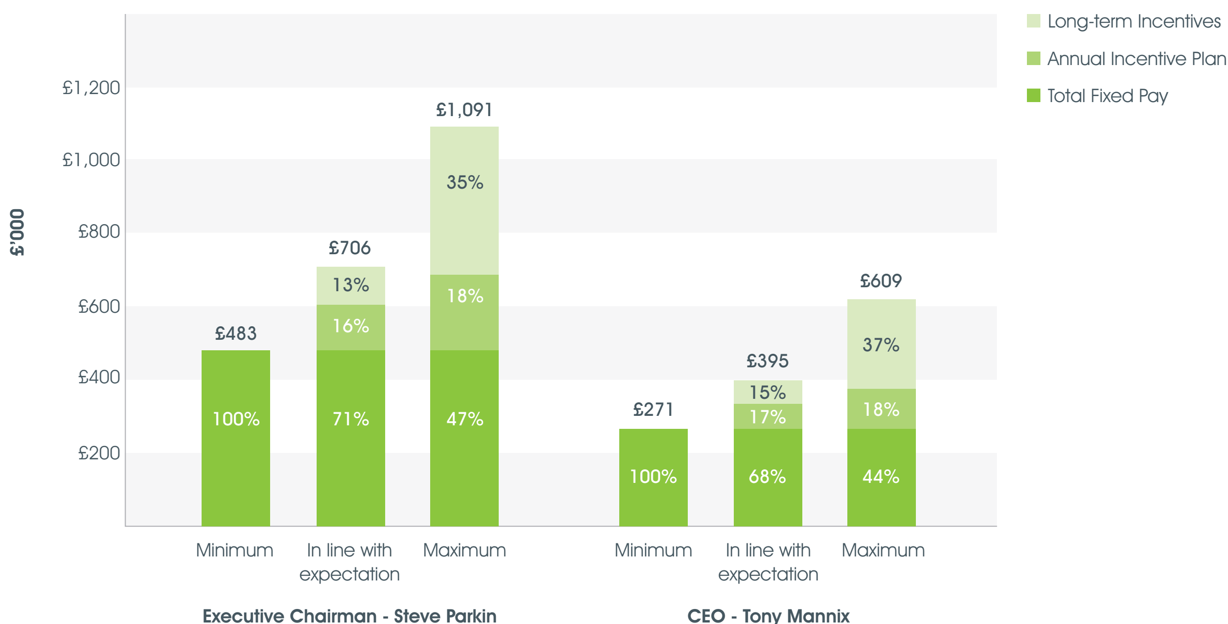
### Statement of consideration of shareholder views

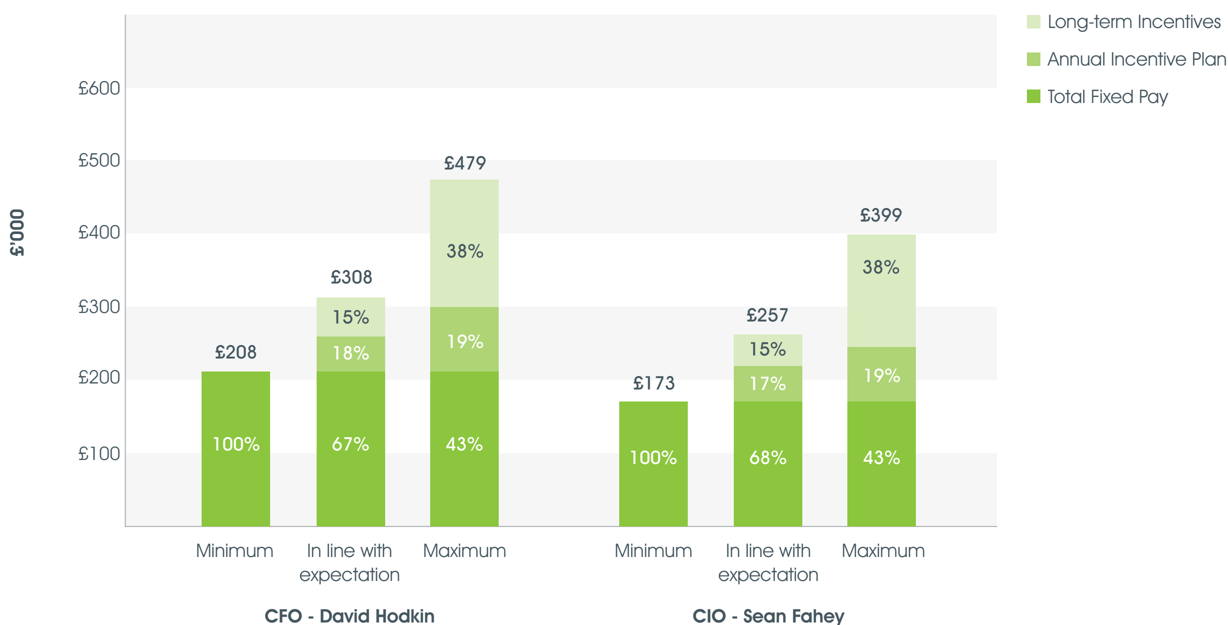
The 2014 AGM is the first occasion on which the Company will seek the support of its shareholders for matters relating to the remuneration of Executive Directors. The Remuneration Committee will ensure that it considers all of the feedback which it receives from its shareholders during this process.

# Directors' Remuneration Policy

continued

## Illustrations of application of remuneration policy



# Directors' Remuneration Policy

continued

The charts on the previous page aim to show how the Remuneration Policy set out above for Executive Directors is applied using the following assumptions:

**Minimum**

- Consists of base salary, benefits and pension.
- Base salary is the salary to be paid in the year ending 30 April 2015.
- Value of the ongoing benefits received in the year ending 30 April 2014.
- Pension measured as the defined contribution or cash allowance in lieu of Company contributions, as a percentage of salary (6% for Steve Parkin, 10% for Tony Mannix and Sean Fahey, 15% in the case of David Hodkin).

| £'000 | Base Salary | Benefits | Pension | Total Fixed |
|---|---|---|---|---|
| Steve Parkin | 405 | 54 | 24 | 483 |
| Tony Mannix | 225 | 23 | 23 | 271 |
| David Hodkin | 180 | 1 | 27 | 208 |
| Sean Fahey | 150 | 8 | 15 | 173 |

**In line with expectations**

**Based on what the Director would receive if performance was on-target (excl. share price appreciation and dividends):**

- STI: consists of 60% of maximum opportunity by attaining on-target performance.
- LTI: consists of the threshold level of vesting (25% vesting), plus the fair value of full investment in the Sharesave scheme (£1,200) for all Directors other than Steve Parkin.

**Maximum**

**Based on the maximum remuneration receivable (excl. share price appreciation and dividends):**

- STI: consists of maximum bonus of 50% of base salary.
- LTI: consists of the face value of awards (100% of salary), plus the fair value of full investment in the Sharesave scheme (£1,200) for all Directors other than Steve Parkin.

# Implementation Report on Remuneration

## Audited Information

### Single Figure Table

| £'000 | Salary year ended 30 April: | | Benefits year ended 30 April: | | Annual bonus year ended 30 April: | | Long-term incentives year ended 30 April: | | Pension contributions year ended 30 April: | | Total year ended 30 April: | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| **Steve Parkin** | **380** | 255 | **120** | 104 | **-** | - | **n/a** | n/a | **15** | 15 | **515** | 374 |
| **Tony Mannix** | **177** | 177 | **24** | 23 | **-** | 10 | **n/a** | n/a | **36** | 36 | **237** | 246 |
| **David Hodkin** | **157** | 150 | **1** | 1 | **-** | 10 | **n/a** | n/a | **23** | 23 | **181** | 184 |
| **Sean Fahey** | **150** | 150 | **23** | 22 | **-** | 10 | **n/a** | n/a | **15** | 15 | **188** | 197 |

*[1] Benefits comprise of a car allowance or company car, fuel allowance, private family medical cover, insurance benefits and loans. All Director loan accounts were repaid by 30 April 2014.*

*[2] No bonus was paid in the year ended 30 April 2014. This decision was made following consideration of the process towards IPO. For details of the performance measures and targets for the financial year ending 30 April 2015, refer to the Notes to the Policy table.*

*[3] No LTIP was in operation for the financial years ended 30 April 2014 and 30 April 2013. For details of the LTIP in operation for the financial year ending 30 April 2015 refer to the Directors' Remuneration Policy.*

*[4] David Hodkin's pension entitlement is paid by way of an additional allowance, taxed as salary.*

*[5] The above table excludes remuneration of Executive Directors who resigned prior to the IPO. Their remuneration is included in the totals shown in note 5 to the Financial Statements.*

### Non-Executive Directors' Fees

| £'000 | Fees year ended 30 April: | | Benefits year ended 30 April: | | Total year ended 30 April: | |
|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| **Mike Russell** | **25** | 28 | **-** | - | **25** | 28 |

*[1] Mike Russell was a Non-Executive Director of the former parent company for both the year ended 30 April 2013 and 30 April 2014, and his remuneration was paid by the Company. Since the 30 April 2014 year end, the Company has appointed three additional Non-Executive Directors, whose fee details are set out in the Implementation of Policy in the year to 30 April 2015 section.*

# Implementation Report on Remuneration

continued

## Directors' Interests

The interests (all being beneficial) immediately following Admission and completion of the Pre-Admission Reorganisation of the Directors in the Company's securities are set out below:

| | Ordinary Shares |
|---|---|
| **Steve Parkin** | **34,797,100** |
| **Tony Mannix** | **1,358,613** |
| **David Hodkin** | **1,358,613** |
| **Sean Fahey** | **7,834,397** |
| **Paul Hampden Smith** | **100,000** |
| **Stephen Robertson** | **-** |
| **Ron Series** | **-** |
| **Mike Russell** | **-** |

[1] *All shares are wholly owned by Directors or connected persons (i.e. none are subject to performance conditions and none are previously vested but as of yet unexercised share options).*

# Implementation Report on Remuneration

continued

## Unaudited Information

### Remuneration Committee

**In anticipation of Admission, the Company established the Remuneration Committee. The members of the Remuneration Committee are:**

- Mike Russell (Chairman);
- Paul Hampden Smith; and
- Ron Series.

**The Remuneration Committee's principal responsibilities are:**

- recommending to the Board the remuneration strategy and framework for the Executive Directors and senior managers;
- determining, within that framework, the individual remuneration arrangements for the Executive Directors and senior managers; and
- overseeing any major changes in employee benefit structures throughout the Group.

The Executive Chairman is invited to attend meetings of the Remuneration Committee, except when his own remuneration is being discussed, and the Chief Financial Officer and other Executives attend meetings as required.

### Advisors

FIT Remuneration Consultants LLP, signatories to the Remuneration Consultants Group's Code of Conduct, were appointed by the Remuneration Committee following a competitive tender process. FIT provides advice to the Remuneration Committee on all matters relating to remuneration, including best practice. FIT provided no other services to the Group and accordingly the Remuneration Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of the year ended 30 April 2014 were £37,000 (ex VAT). FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

# Implementation Report on Remuneration

continued

## Implementation of Policy in the year ended 30 April 2015

### Executive Directors

**Base Salary**

- Base salaries from Admission were as follows: £405,000 for Steve Parkin, £225,000 for Tony Mannix, £180,000 for David Hodkin and £150,000 for Sean Fahey.

**Pension**

- Contribution rates for Executive Directors are as follows (expressed as percentages of base salary): Steve Parkin - 6%, Tony Mannix - 10%, David Hodkin - 15%. Sean Fahey - 10%.

**Benefits**

- Details of the benefits received by Executive Directors are set out in note 1 to the single figure table on page 60.
- There is no intention to introduce additional benefits in 2014.

**Annual Incentive Plan for the year to 30 April 2014**

- No bonuses were paid for the year to 30 April 2014.

**Annual Incentive Plan for the year to 30 April 2015**

- The AIP maximum is 50% of base salary.
- Performance measures for the AIP in the year to 30 April 2015 are summarised in note 1 in *Notes to the Policy Table*.

**Performance Share Plan in the year to 30 April 2015**

- Award levels are proposed at 100% of base salary for each Executive Director.
- The performance measures and targets for this award are described in note 2 in *Notes to the Policy Table*.

### Non-Executive Directors

**Fees**

- The base fee payable to each Non-Executive Director is as follows: Paul Hampden Smith (Senior Independent Director and Chair of the Audit Committee) - £60,000; Stephen Robertson - £40,000; Ron Series - £40,000; Mike Russell - £40,000.

# Implementation Report on Remuneration

continued

## Unaudited Information

**Relative importance of spend on pay**

The Company was Admitted on 4 June 2014 and no distributions have been made to shareholders since that date.

The dividend paid by the Company during the year to 30 April 2014 was to the Company's former parent, therefore comparison of profit distributed by way of dividend to overall expenditure on pay is invalidated for the years to 30 April 2013 and 30 April 2014.

# Implementation Report on Remuneration

continued

### Comparative Total Shareholder Return ("TSR")

The DRR regulations require a line graph showing the TSR on a holding of shares in the Company since Admission to the financial year end following Admission, as well as the TSR for a hypothetical holding of shares in a broad equity market index for the same period. As Clipper listed after the 30 April 2014 financial year end, it is not possible to create this graph for this year's Annual Report. Next year's Annual Report will include this graph over the period from Admission to the 30 April 2015 financial year end.

The DRR regulations also require a table setting out selected details of the remuneration of the Executive Chairman over the same period as shown on the TSR graph. Although, as mentioned above, Clipper listed after the financial year end, we have still included the details required by the DRR regulations for the last 2 financial years as shown in the table below.

| | Single figure of total remuneration (£'000) | Annual variable element award rates against maximum opportunity | Long term incentive vesting rates against maximum opportunity |
|---|---|---|---|
| **Year ended 30 April 2014: Steve Parkin** | **515** | **0%** | **n/a** |
| Year ended 30 April 2013: Steve Parkin | 374 | 0% | n/a |

### Executive Chairman's relative pay

In accordance with the DRR regulations, we present in the table below the percentage change in the prescribed pay elements (salary, taxable benefits, and annual bonus outcome) of the Executive Chairman and the average percentage change for all Group staff between the year ended 30 April 2013 and the year ended 30 April 2014.

| Year-on-year % change | Salary | Taxable Benefits | Annual Bonus |
|---|---|---|---|
| **Executive Chairman** | 49% | 15% | 0% |
| **All-employees** | 2% | 1% | 0% |

### AGM voting results

As the Company has only recently listed, there has not yet been an Annual General Meeting ("AGM") where a resolution to pass each of the Directors' Remuneration Policy and Directors' Remuneration Report has been put forward for voting. In next year's Annual Report this section will have the voting breakdown of those two resolutions from this year's AGM.

This report was reviewed and approved by the Board on 28 August 2014 and signed on its behalf by order of the Board.

**Mike Russell**
**Chairman, Remuneration Committee**

# Directors' Report

The Directors are pleased to present the first Annual Report and consolidated Financial Statements of Clipper Logistics plc for the year ended 30 April 2014.

The Corporate Governance Report on pages 34 to 37 and the Corporate Social Responsibility Report (with regard to information about the employment of disabled persons, employee involvement and greenhouse gas emissions) are also incorporated into this report by reference.

The Company has chosen, in accordance with section 414C (11) of the Companies Act 2006 to include the disclosure of likely future developments in the Strategic Report (see pages 4 to 29).

### Financial risk management

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operational and Financial Review on pages 18 to 25, along with the financial position of the Group, its cash flows and liquidity.

In addition, note 2.24 to the Financial Statements includes the Group's objectives, policies and processes for capital and financial risk management, including information on the Group's exposures to market risk, including foreign currency, commodity price, interest rate, inflation and equity price risks; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

### Results and dividends

Results for the year are set out in the Group Income Statement on page 76.

The Directors are not recommending the payment of any final dividend in respect of the year ended 30 April 2014.

An interim dividend of £2.5 million was paid to the Group's former parent company on 28 June 2013. Further distributions by the Group in the year are set out in note 8 to the Financial Statements.

### Directors

The names and biographies of the current Directors of the Company are set out on pages 32 and 33 of this Annual Report.

### Directors' share interests

Particulars of the number of Ordinary Shares of the Company in which the Directors were beneficially interested immediately following Admission on 4 June 2014 are set out in the Directors' Remuneration Report on page 61.

### Directors' indemnities

The Articles permit the Board to grant the Directors indemnities in relation to their duties as Directors, including third party indemnity provisions (within the meaning of the Companies Act) in respect of any liabilities incurred by them in connection with any negligence, default, breach of duty or breach of trust in relation to the Company. No such indemnities have to date been granted.

### Compensation for loss of office

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs as a result of a takeover bid. Further details of the Directors' service contracts can be found in the Directors' Remuneration Report on pages 44 to 65.

**The following Directors are current Directors or served the Company during the year ended 30 April 2014:**

| Name | Position | Notes |
|---|---|---|
| Steven (Steve) Nicholas Parkin | Executive Chairman | - |
| Antony (Tony) Gerard Mannix | Chief Executive Officer | - |
| David Arthur Hodkin | Chief Financial Officer | - |
| Sean Eugene Fahey | Chief Information Officer | - |
| Michael (Mike) David Badrock | Non-Executive Director | Resigned 13 May 2014 |
| Nigel John Hinds | Operations Director | Resigned 13 May 2014 |
| Paul Nigel Hampden Smith | Senior Independent Non-Executive Director | Appointed 16 May 2014 |
| Stephen Peter Robertson | Independent Non-Executive Director | Appointed 16 May 2014 |
| Ronald (Ron) Charles Series | Independent Non-Executive Director | Appointed 16 May 2014 |
| Michael (Mike) John Russell | Independent Non-Executive Director | Appointed 16 May 2014 |

# Directors' Report

continued

### Directors' and Officers' liability insurance

Directors' and Officers' Liability Insurance cover is in place at the date of this report, having been purchased prior to the IPO. The Board remains satisfied that an appropriate level of cover is in place and a review of cover will take place on an annual basis.

### Articles of Association

The Articles of Association (adopted by special resolution on 15 May 2014) may only be amended by special resolution of the shareholders. A copy of the Articles is available on request from the Company Secretary.

### Change of name

On 14 May 2014 the Company changed its name from Clipper Logistics Group Ltd to Clipper Logistics Ltd, and on 15 May 2014 re-registered as a plc.

### Share capital structure

Details of the Company's share capital are set out in note 22 to the Financial Statements on page 116. The Company has a single class of share capital divided into Ordinary Shares of 0.05p each. The Ordinary Shares are listed on the London Stock Exchange. The rights and obligations attaching to these shares are governed by UK law and the Company's Articles of Association.

### Voting rights attaching to shares

Ordinary shareholders are entitled to receive notice and to attend and speak at any general meeting of the Company. On a show of hands every shareholder present in person or by proxy (or being a corporation represented by a duly authorised representative) shall have one vote, and on a poll every shareholder who is present in person or by proxy shall have one vote for every share of which he is the holder. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies.

### Deadlines for exercising voting rights attaching to shares

The Articles provide a deadline for the submission of proxy forms (whether by an instrument in writing or electronically) of not less than 48 hours before the time appointed for the holding of the meeting or the adjourned meeting.

### Shares in uncertificated form

Directors may determine that shares may be held in uncertificated form and title to such shares may be transferred by means of a relevant system or that shares should cease to be so held and transferred.

### Variation of rights attaching to shares

The Articles provide that rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters in nominal value of the issued shares, or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting, the quorum shall be 2 persons holding or representing by proxy at least one-third in nominal value of the issued shares (calculated excluding any shares held in treasury). The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

### Restrictions on the transfer of shares

There are no restrictions on the transfer of the Ordinary Shares other than:

- the standard restrictions for a UK-quoted company where any amount is unpaid on a share;
- where, from time to time, certain restrictions may become imposed by laws and regulations (for example, insider trading laws and marketing requirements relating to close periods); and
- pursuant to the Listing Rules of the Financial Conduct Authority whereby certain Directors, officers or employees of the Company require the approval of the Company to deal in the Ordinary Shares.

On 30 May 2014, the Company entered into a placing agreement with, amongst others, the Directors, certain selling shareholders and Numis Securities Ltd ("Numis") in accordance with which subject to certain customary exceptions:

- the Company has agreed not to dispose of any Ordinary Shares in the Company for a period of 365 days following the date of Admission without the prior written consent of Numis; and
- the Directors and those selling shareholders who have retained Ordinary Shares after Admission have agreed not to dispose of any Ordinary Shares in the Company for a period of 365 days following the date of Admission without the prior written consent of Numis.

# Directors' Report

continued

On 30th May 2014 the Executive Directors and certain persons who held Ordinary Shares after the Company's Admission or whose associates held such shares entered into an agreement pursuant to which they (other than Steve Parkin) each agreed with Mr Parkin that, subject to certain usual exceptions, each of them would not dispose of shares which in aggregate equated to:

- more than one third of his shares (as held immediately following listing) at any time during the period commencing on the date of Admission and ending on the fourth anniversary of that date; and
- the balance of any of such shares not otherwise disposed of in the first period between the date commencing on the first anniversary of Admission and the fifth anniversary of Admission.

### Authority to purchase own shares

A resolution to authorise the Directors to purchase up to 10% of the Company's issued Ordinary Share capital will be proposed at the 2014 AGM.

As at 26 August 2014, being the latest practicable date prior to the publication of this report, the Company did not hold any shares in treasury.

### Appointment and replacement of Directors

Unless determined by ordinary resolution of the Company, the number of Directors shall not be less than 2 or more than 12 in number. A Director is not required to hold any shares in the Company by way of qualification.

The Board may appoint any person to be a Director and such Director shall hold office only until the next AGM, when he or she shall be eligible for appointment by the shareholders. The articles provide that at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of 3, then the number nearest to but not exceeding one-third) shall retire from office. A Director who retires at any AGM shall be eligible for re-appointment. In addition, any Director appointed by the Board shall hold office only until the next following AGM and shall then be eligible for appointment.

On 30th May 2014 the Company entered into an agreement ("Relationship Agreement") with Steve Parkin and his nominee company Carlton Court Investments Ltd (the "Principal Shareholders"). Pursuant to that agreement the Company has agreed with the Principal Shareholders that the Principal Shareholders shall be entitled to appoint and remove one Director to the Board so long as the Principal Shareholders (and/or any of their associates) when taken together, hold 25% or more of the voting rights over the Company's issued shares. Where any Principal Shareholder has already been nominated to the board as a Director himself such appointment will reduce the number of persons which the Principal Shareholders are entitled to nominate for appointment by one. Any person appointed by the Principal Shareholders to the board may be removed by the Principal Shareholders by notice in writing.

### Power of Directors

Subject to the Articles, the Companies Act and any directions given by special resolution, the business of the Company shall be managed by the Board who may exercise all the powers of the Company to, for example, borrow money; mortgage or charge any of its undertaking, property and uncalled capital; and issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company.

### Greenhouse gas emissions

The Group's disclosures on greenhouse gas emissions can be found in the CSR section of the Strategic Review on page 28 and form part of the Directors' Report.

### Employment Policies

Arrangements for consulting and involving Group employees on matters affecting their interests at work, and informing them of the performance of their employing business and the Group, are developed in ways appropriate to each business. A variety of approaches is adopted aimed at encouraging the involvement of employees in effective communication and consultation, and the contribution of productive ideas at all levels.

Employment policies are designed to provide equal opportunities irrespective of race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation or political affiliation. Group policy is to ensure that disabled applicants for employment are given full and fair consideration having regard to their particular aptitudes and abilities, and that existing disabled employees are given equal access to training, career development and promotion opportunities. In the event of existing employees becoming disabled, all reasonable means would be explored to achieve retention in employment in the same or an alternative capacity, including arranging appropriate training. Further details in relation to the Group's employment policy is set out in the CSR section of the Strategic Report on page 28.

### Political donations

The Company has made no political donations since Admission on 4 June 2014 and intends to continue its policy of not doing so for the foreseeable future.

# Directors' Report
continued

### Major interests in shares
As at 5 August 2014, the Company had been advised, in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, of the following notifiable interests (whether directly or indirectly held) in 3% or more of its voting rights:

| Notification received from | Number of voting rights | % |
|---|---|---|
| Carlton Court Investments Ltd[1] | 34,797,100 | 34.80 |
| SOMLIE Ltd[2] | 7,834,397 | 7.83 |
| The Chima Settlement | 6,999,999 | 7.00 |
| Unicorn Asset Management | 6,290,000 | 6.29 |
| Liontrust Asset Management | 5,360,188 | 5.36 |
| Legal and General Investment Management | 4,085,000 | 4.09 |
| Artemis Investment Management | 3,865,984 | 3.87 |
| Schroder Investment Management | 3,675,000 | 3.68 |
| SFM UK Management | 3,250,000 | 3.25 |
| River and Mercantile Asset Management | 3,015,000 | 3.02 |
| F&C Asset Management | 3,000,000 | 3.00 |

*[1] Ultimately controlled by Steve Parkin, Executive Chairman.*
*[2] Nominee for Sean Fahey, Chief Information Officer.*

### Going concern
After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In making this assessment they have considered the Company and Group budgets and cash flow forecasts for the period to 30 April 2016. The Company has considerable financial resources, negligible liquidity risk and is operating within a sector that is experiencing growing demand for its services. The Directors therefore have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual Financial Statements.

### Audit information
Each of the Directors at the date of the approval of this report confirms that:

- so far as he is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- he has taken all the reasonable steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of the information.

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

### Auditors
The auditors, Ernst & Young LLP have indicated their willingness to continue in office and a resolution seeking to reappoint them will be proposed at the Annual General Meeting.

### Annual general meeting
The Company's Annual General Meeting will be held at Clipper Logistics, Gelderd Road, Leeds, LS12 6LT on 29 September 2014 at 11:00. Details of the meeting venue and the resolutions to be proposed are set out in a separate Notice of Meeting which accompanies the Annual Report.

The Directors consider that all of the proposed resolutions are in the best interests of the Company and its shareholders as a whole. It is the Directors' recommendation that you support the proposed resolutions and vote in favour of them, as each of the Directors intends to do.

**The Directors' Report has been approved by the Board of Directors of Clipper Logistics plc.**

**Signed on behalf of the Board.**

**Paul White**
**Company Secretary**
**28 August 2014**

**Clipper Logistics plc**
**Registered Office:**
**Gelderd Road**
**Leeds**
**LS12 6LT**

**Company No. 03042024**

# Statement of Directors' Responsibilities in respect of the Annual Report and the Group Financial Statements

The Directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they are required to prepare the Group's Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and performance; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that its Financial Statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report, Audit Committee Report and Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the of Listing Rules and Disclosure and Transparency Rules.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Directors' Responsibility Statement**

Each of the Directors, whose names and functions are listed on pages 32 and 33 confirm that, to the best of their knowledge:

- the Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group;
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

**Approved by the Board and signed on its behalf by:**

**Steve Parkin**
**Executive Chairman**
**28 August 2014**

**David Hodkin**
**Chief Financial Officer**
**28 August 2014**

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# Group Financial Statements for the year ended 30 April 2014

# Independent Auditor's Report - Group

## Independent auditor's report to the members of Clipper Logistics plc

### Opinion on the Group Financial Statements

In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 30 April 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and article 4 of the IAS regulation.

### What we have audited

We have audited the Group Financial Statements of Clipper Logistics plc for the year ended 30 April 2014 which comprise the Group Income Statement and Statement of Comprehensive Income, the Group Statement of Financial Position, the Group Statement of Changes in Equity, the Group Statement of Cash Flows, and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 70, the Directors are responsible for the preparation of the Group 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 Group 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 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.

### Our assessment of risks of material misstatement

We identified the following risks that we believed would have the greatest impact on our overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- Revenue recognition, specifically to ensure in the first year as Group auditor that appropriate revenue recognition policies were applied;
- Accounting for the reorganisation of the Group; and
- Classification of certain head office costs as discontinuing costs.

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the Financial Statements. For the purposes of determining whether the Financial Statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the Financial Statements, would be changed or influenced.

We determined materiality for the Group to be £0.3 million, which is approximately 5% of pre-tax profit for the year, adjusted for exceptional items. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that performance materiality (that is our tolerance for misstatement in an individual account or balance) was 50% of our materiality, namely £0.15 million. Our objective in adopting this approach was to ensure that uncorrected and undetected audit differences in the Financial Statements as a whole did not exceed our planning materiality level.

We agreed with the Audit Committee that we would report to the Committee all corrected and uncorrected audit differences in excess

# Independent Auditor's Report - Group

continued

of £15,000, as well as differences below that threshold that in our view warranted reporting on qualitative grounds.

## An overview of the scope of our audit

We adopted a risk-based approach in determining our audit strategy. This approach focuses audit effort towards higher risk areas, such as management judgements and estimates and operating units that are considered significant based upon size, complexity and risk. Our Group audit scope focused on two operating units, which were subject to a full scope audit for the year ended 30 April 2014 performed by the Group audit team. An additional operating unit was selected for specific scope audit procedures where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of those operating units to the Group's business operations. Together with the Group functions which were also subject to a full or specific scope audit for the year ended 30 April 2014, these operating units represent the principal business units of the Group and account for 100% of the Group's revenue, 100% of the Group's profit before tax, and 100% of the Group's total assets.

Audits of these operating units are performed at a performance materiality level calculated with reference to a proportion of the Group materiality appropriate to the relative scale and risk associated with each operating unit. They are also selected to provide a basis for undertaking audit work to address the risks of material misstatement identified above.

The principal ways in which we responded to the risks identified above included:

**(a) Revenue recognition**

We agreed the detailed application of revenue recognition policies for a sample of contracts and challenged management in respect of the reasonableness of judgements made in order to determine the recognition of revenue. We undertook cut-off testing at each operating unit. We tested revenue journal entries recorded in the general ledger and evaluated the rationale for unusual items where required. We also ensured that management's policies for revenue recognition and the Financial Statement disclosures were in accordance with accounting standards.

**(b) Accounting for the reorganisation of the Group**

We challenged management in respect of the basis of accounting used in accounting for the reorganisation and the applicability of the basis selected.

We have audited key evidence of the transaction that gave rise to the reorganisation, and agreed the treatment in the consolidation and the related Financial Statement disclosures.

**(c) Classification of certain head office costs as discontinuing:**

We reviewed management's assessment of costs in respect of those that have been categorised as discontinuing head office costs as described further in note 4 to the Group Financial Statements. We have sample tested items within this category to confirm the appropriate treatment.

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and Directors' Report for the financial year for which the Group Financial Statements are prepared is consistent with the Group Financial Statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' Responsibility Statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Under the Listing Rules we are required to review:

- the Directors' Responsibility Statement, set out on page 70 within the Director's Report, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

## Other matters

We have reported separately on the Company Financial Statements of Clipper Logistics plc for the year ended 30 April 2014 and on the information in the Directors' Remuneration Report that is described as having been audited.

**Stuart Watson (Senior statutory auditor)**
**for and on behalf of Ernst & Young LLP, Statutory Auditor, Leeds**
**28 August 2014**

# Group Income Statement and Statement of Comprehensive Income

## For the year ended 30 April

| | Note | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|---|
| Revenue | 3 | 201,248 | 160,703 | 166,523 | 164,982 |
| Cost of sales | | (141,514) | (110,920) | (118,565) | (117,614) |
| Gross profit | | 59,734 | 49,783 | 47,958 | 47,368 |
| Other net gains | 6 | 285 | 438 | 1,203 | 312 |
| Administration and other expenses | | (50,406) | (41,484) | (40,494) | (39,432) |
| Operating profit before non-recurring items | | 9,613 | 8,737 | 8,667 | 8,248 |
| Discontinuing costs | 4 | (2,297) | (2,137) | (1,991) | (1,508) |
| Exceptional costs | 6 | (2,516) | (392) | (87) | (1,145) |
| Operating profit | 6 | 4,800 | 6,208 | 6,589 | 5,595 |
| Finance costs | 10 | (952) | (1,005) | (1,419) | (1,003) |
| Finance income | 9 | 101 | 3 | 55 | 82 |
| Profit before income tax | | 3,949 | 5,206 | 5,225 | 4,674 |
| Income tax expense | 11 | (1,103) | (1,432) | (1,405) | (1,532) |
| Profit for the financial period | | 2,846 | 3,774 | 3,820 | 3,142 |
| Other comprehensive income for the period, net of tax: | | | | | |
| To be reclassified to the income statement in subsequent periods: | | | | | |
| Exchange differences on retranslation of foreign operations | | (1) | 8 | 26 | (14) |
| Total comprehensive income | | 2,845 | 3,782 | 3,846 | 3,128 |
| Attributable to: | | | | | |
| Equity holders of the Company | | 2,826 | 3,766 | 3,820 | 3,142 |
| Non-controlling interest | | 20 | 8 | - | - |
| Profit for the financial period | | 2,846 | 3,774 | 3,820 | 3,142 |
| Basic and diluted earnings per share | | 2.8p | 3.8p | 3.9p | 3.2p |
| Adjusted basic and diluted earnings per share* | | 6.6p | 5.7p | 5.4p | 5.1p |

*Earnings per share adjusted for discontinuing and exceptional costs as described in note 7.*

# Group Statement of Financial Position

## At 30 April

| | Note | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| **NON-CURRENT ASSETS** | | | | | | |
| Property, plant and equipment | 13 | 15,843 | 14,835 | 12,877 | 13,368 | 15,299 |
| Goodwill | | 19,018 | 18,785 | 18,785 | 18,785 | 18,785 |
| Other intangible assets | | 549 | 592 | 232 | 343 | 516 |
| Intangible assets | 14 | 19,567 | 19,377 | 19,017 | 19,128 | 19,301 |
| Total non-current assets | | 35,410 | 34,212 | 31,894 | 32,496 | 34,600 |
| **CURRENT ASSETS** | | | | | | |
| Inventories | 16 | 19,025 | 14,346 | 18,827 | 20,813 | 15,516 |
| Trade and other receivables | 17 | 28,332 | 22,946 | 20,544 | 20,630 | 20,089 |
| Cash and cash equivalents | 18 | 5,360 | 2,849 | 2,231 | 156 | 320 |
| Total current assets | | 52,717 | 40,141 | 41,602 | 41,599 | 35,925 |
| **TOTAL ASSETS** | | 88,127 | 74,353 | 73,496 | 74,095 | 70,525 |
| **EQUITY AND LIABILITIES** | | | | | | |
| **CURRENT LIABILITIES** | | | | | | |
| Trade and other payables | 19 | 51,724 | 37,313 | 38,741 | 42,247 | 35,938 |
| Financial liabilities: borrowings | 20 | 19,141 | 5,774 | 6,022 | 4,187 | 9,219 |
| Short term provisions | 21 | 147 | 547 | 428 | 636 | 130 |
| Current income tax liabilities | 11 | 318 | 530 | 689 | 803 | 179 |
| Total current liabilities | | 71,330 | 44,164 | 45,880 | 47,873 | 45,466 |
| **NON-CURRENT LIABILITIES** | | | | | | |
| Borrowings | 20 | 4,260 | 2,093 | 625 | 963 | 1,994 |
| Long term provisions | 21 | 699 | 508 | 490 | 593 | 769 |
| Deferred tax liabilities | 11 | 366 | 672 | 624 | 391 | 357 |
| Total non-current liabilities | | 5,325 | 3,273 | 1,739 | 1,947 | 3,120 |
| **TOTAL LIABILITIES** | | 76,655 | 47,437 | 47,619 | 49,820 | 48,586 |
| **EQUITY SHAREHOLDERS' FUNDS** | | | | | | |
| Share capital | 22 | 50 | 8 | 8 | 8 | 8 |
| Share premium | | 48 | 48 | 48 | 48 | 48 |
| Currency translation reserve | | 36 | 36 | 33 | 8 | 21 |
| Other reserve | | 84 | 51 | 51 | 51 | 51 |
| Merger reserve | 23 | 6,006 | 18,168 | 18,168 | 18,168 | 18,168 |
| Retained earnings | | 5,248 | 8,592 | 7,569 | 5,992 | 3,643 |
| Equity attributable to the owners of the Company | | 11,472 | 26,903 | 25,877 | 24,275 | 21,939 |
| Non-controlling interests | | - | 13 | - | - | - |
| Total equity | | 11,472 | 26,916 | 25,877 | 24,275 | 21,939 |
| **TOTAL EQUITY AND LIABILITIES** | | 88,127 | 74,353 | 73,496 | 74,095 | 70,525 |

**Approved by the Board on 28 August 2014 and signed on its behalf by:**

**D A Hodkin – Chief Financial Officer**

# Group Statement of Changes in Equity

| | Share capital £'000 | Share premium £'000 | Other reserve £'000 | Currency translation reserve £'000 | Carried forward £'000 |
|---|---|---|---|---|---|
| Balance at 1 May 2010 | 8 | 48 | 51 | 21 | 128 |
| Profit for the year | - | - | - | - | - |
| Other comprehensive income | - | - | - | (13) | (13) |
| Equity settled transactions | - | - | - | - | - |
| Dividends | - | - | - | - | - |
| **Balance at 30 April 2011** | 8 | 48 | 51 | 8 | 115 |
| Profit for the year | - | - | - | - | - |
| Other comprehensive income | - | - | - | 25 | 25 |
| Equity settled transactions | - | - | - | - | - |
| Dividends | - | - | - | - | - |
| **Balance at 30 April 2012** | 8 | 48 | 51 | 33 | 140 |
| Profit for the year | - | - | - | - | - |
| Other comprehensive income | - | - | - | 3 | 3 |
| Equity settled transactions | - | - | - | - | - |
| Dividends | - | - | - | - | - |
| **Balance at 30 April 2013** | 8 | 48 | 51 | 36 | 143 |
| Profit for the year | - | - | - | - | - |
| Other comprehensive income | - | - | - | - | - |
| Share issue - for cash | 42 | - | - | - | 42 |
| - on acquisition of minority interest | - | - | 800 | - | 800 |
| Increase in ownership interest of subsidiary | - | - | (767) | - | (767) |
| Equity settled transactions | - | - | - | - | - |
| Dividends | - | - | - | - | - |
| **Balance at 30 April 2014** | 50 | 48 | 84 | 36 | 218 |

# Group Statement of Changes in Equity

continued

| | Brought forward £'000 | Merger reserve £'000 | Retained earnings £'000 | Non-controlling interest £'000 | Total £'000 |
|---|---|---|---|---|---|
| Balance at 1 May 2010 | 128 | 18,168 | 3,643 | - | 21,939 |
| Profit for the year | - | - | 3,142 | - | 3,142 |
| Other comprehensive income | (13) | - | (1) | - | (14) |
| Equity settled transactions | - | - | 9 | - | 9 |
| Dividends | - | - | (801) | - | (801) |
| Balance at 30 April 2011 | 115 | 18,168 | 5,992 | - | 24,275 |
| Profit for the year | - | - | 3,820 | - | 3,820 |
| Other comprehensive income | 25 | - | 1 | - | 26 |
| Equity settled transactions | - | - | 19 | - | 19 |
| Dividends | - | - | (2,263) | - | (2,263) |
| Balance at 30 April 2012 | 140 | 18,168 | 7,569 | - | 25,877 |
| Profit for the year | - | - | 3,766 | 8 | 3,774 |
| Other comprehensive income | 3 | - | - | 5 | 8 |
| Equity settled transactions | - | - | 57 | - | 57 |
| Dividends | - | - | (2,800) | - | (2,800) |
| Balance at 30 April 2013 | 143 | 18,168 | 8,592 | 13 | 26,916 |
| Profit for the year | - | - | 2,826 | 20 | 2,846 |
| Other comprehensive income | - | - | (1) | - | (1) |
| Share issue - for cash | 42 | - | - | - | 42 |
| - on acquisition of minority interest | 800 | - | - | - | 800 |
| Increase in ownership interest of subsidiary | (767) | - | - | (33) | (800) |
| Equity settled transactions | - | - | 180 | - | 180 |
| Dividends | - | - | (6,349) | - | (6,349) |
| Investment in subsidiaries charged to merger reserve | - | (12,162) | - | - | (12,162) |
| Balance at 30 April 2014 | 218 | 6,006 | 5,248 | - | 11,472 |

# Group Statement of Cash Flows

## For the year ended 30 April

| | Note | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|---|
| Profit before tax from operating activities | | **3,949** | 5,206 | 5,225 | 4,674 |
| Adjustments to reconcile profit before tax to net cash flows: | | | | | |
| - Depreciation and impairment of property, plant and equipment | 6 | **3,685** | 2,603 | 2,577 | 2,619 |
| - Amortisation and impairment of intangible assets | 6 | **219** | 156 | 135 | 176 |
| - Gain on disposal of property, plant and equipment | 6 | **(26)** | (302) | (1,202) | (74) |
| - Exchange differences | | **10** | (17) | 88 | (30) |
| - Finance costs | 9 & 10 | **851** | 1,002 | 1,364 | 921 |
| - Share based payments charge | | **180** | 57 | 19 | 9 |
| Working capital adjustments: | | | | | |
| - (Increase) / decrease in trade and other receivables and prepayments | | **(4,498)** | (2,401) | 86 | (541) |
| - (Increase) / decrease in inventories | | **(3,566)** | 5,613 | 3,885 | (4,525) |
| - Increase / (decrease) in trade and other payables | | **13,318** | (1,297) | (3,818) | 6,729 |
| Operating activities: | | | | | |
| - Cash generated from operations | | **14,122** | 10,620 | 8,359 | 9,958 |
| - Interest received | | **101** | 3 | 55 | 82 |
| - Interest paid | | **(962)** | (995) | (1,419) | (1,092) |
| - Income tax paid | | **(1,644)** | (1,544) | (1,294) | (874) |
| **Net cash flows from operating activities** | | **11,617** | 8,084 | 5,701 | 8,074 |
| Investing activities: | | | | | |
| - Purchase of property, plant and equipment | | **(2,557)** | (2,809) | (1,982) | (558) |
| - Proceeds from sale of property, plant & equipment | | **172** | 861 | 1,756 | 404 |
| - Purchase of intangible assets | | **(176)** | (517) | (23) | (4) |
| - Transfer of subsidiaries from former parent company | | **(12,162)** | - | - | - |
| - Acquisition of subsidiary undertaking net of cash acquired | 28a | **(64)** | - | - | - |
| **Net cash flows from investing activities** | | **(14,787)** | (2,465) | (249) | (158) |
| Financing activities: | | | | | |
| - Net advance from (repayment to) former parent company | | **11,846** | (1,145) | 6,631 | (325) |
| - New bank loans | | **146** | 1,427 | - | - |
| - Stocking loans advanced | | **1,708** | 504 | 474 | - |
| - Finance leases advanced | | **1,941** | 79 | - | - |
| - Repayment of bank loans | | **(266)** | (723) | - | (1,800) |
| - Shares issued | | **42** | - | - | - |
| - Dividends paid | 8 | **(6,349)** | (2,800) | (2,263) | (801) |
| - Repayment of capital on finance leases | | **(2,903)** | (2,831) | (2,659) | (2,529) |
| **Net cash flows from financing activities** | | **6,165** | (5,489) | 2,183 | (5,455) |
| Net increase in cash and cash equivalents | | **2,995** | 130 | 7,635 | 2,461 |
| Cash and cash equivalents at start of period | | **2,280** | 2,150 | (5,485) | (7,946) |
| **Cash and cash equivalents at end of period** | | **5,275** | 2,280 | 2,150 | (5,485) |

# Notes to the Group Financial Statements

### 1. General information

The Group Financial Statements for the year ended 30 April 2014 were authorised for issue by the Board of Directors on 28 August 2014 and the Group Statement of Financial Position was signed on the Board's behalf by David Hodkin.

Clipper Logistics plc (the "Company") and its subsidiaries (together the "Group") provide value-added logistics and other services to predominantly the retail sector and also operate as distributors of commercial vehicles.

The Company is limited by share capital, incorporated and domiciled in the United Kingdom. The address of its registered office is Clipper Logistics, Gelderd Road, Leeds, LS12 6LT.

The Group's Financial Statements have been prepared in accordance with note 2.1 Basis of preparation, and note 2.3 Basis of consolidation. The principal accounting policies adopted by the Group are set out in note 2.

### 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### 2.1 Basis of preparation

Clipper Logistics plc ('the Company'), a public limited company incorporated and domiciled in the United Kingdom, acts as parent undertaking for the Clipper group of companies. The Company has independent operations in its own right and as at 30 April 2014 it was a wholly owned subsidiary of Clipper Group Holdings Ltd. In April 2014 the Group undertook a restructuring. On 16 April 2014 the Company acquired fellow subsidiaries from Clipper Group Holdings Ltd which comprised 100% of the issued share capital of Northern Commercials (Mirfield) Ltd and Genesis Specialised Product Packing Ltd and 75% of the capital of Clipper Geist Logistics GmbH & Co. KG (collectively 'the Clipper Group'). On 30 April 2014 the Group acquired the remaining 25% of share capital for Clipper Geist Logistics GmbH & Co. KG. There were no remaining non-controlling interests from this date. On 4 June 2014 Clipper Logistics plc was admitted to the premium segment of the London Stock Exchange and Clipper Group Holdings Ltd was no longer the parent company.

The Group's Financial Statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS) regulations as they apply to the Financial Statements of the Group for the year ended 30 April 2014 and also in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. These Financial Statements for the year ended 30 April 2014 are the first the Group has prepared in accordance with IFRS. Refer to Note 29 for information on how the Group adopted IFRS, including permitted exemptions that have been taken from the general requirement to apply IFRSs retrospectively.

The preparation of the financial information under IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 30 April 2014.

The Group's Financial Statements have been prepared on a historical cost basis.
The Financial Statements are presented in Pounds Sterling and all values are rounded to the nearest thousand (£000) unless otherwise indicated.

### 2.2 Going concern

The Financial Statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the Financial Statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

Further information in relation to the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Review section of this report on pages 4 to 29.

# Notes to the Group Financial Statements

continued

## 2.2 Going concern (continued)

Note 26 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to foreign exchange, credit and interest rate risk. Further details of the Group's net debt at 30 April 2014 are included in note 20 of the Financial Statements.

The Group Statement of Financial Position shows total current assets of £52,717,000 and total current liabilities of £71,330,000. Net current liabilities at 30 April 2014 were therefore £18,613,000. On 2 May 2014 the bank facilities granted by Santander UK plc to Clipper Group Holdings Ltd were novated to the Company. On 4 June 2014 these facilities were restructured and extended. Following the restructuring, in addition to a five year term loan of £12,500,000 amortising quarterly, the Group has access to a five year, non-amortising, revolving credit facility of £12,504,000. On a pro-forma basis, if this restructuring had been in place on 30 April 2014, the Group's net current liabilities would have been £7,613,000 and the undrawn revolving credit facility would have been £11,504,000. The Directors have assessed the future funding requirements of the Group and the Company and compared them to the bank facilities which are now available. The assessment included a detailed review of financial and cash flow forecasts for at least the 12 month period from the date of signing the Annual Report. The Directors considered a range of potential scenarios within the key markets the Group serves and how these might impact on the Group's cash flow. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences.

The Group's forecasts and projections show that the Group should be able to operate without the need for any increase in borrowing facilities.

Having undertaken this work, the Directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

## 2.3 Basis of consolidation

### (a) Group reorganisation

The restructuring noted above is a combination of entities under common control. IFRS 3 states that it does not apply to a combination of entities or businesses under common control. All of the entities that make up Clipper Group have remained under common control, in each of the years disclosed. Accordingly, the consolidated financial information of the Clipper Group has been prepared to reflect the combination of the restructured Clipper Group as if it had occurred from 1 May 2010.

The financial information of the Clipper Group for the year ended 30 April 2014 and the comparative information has been prepared on a basis that combines the results and assets and liabilities of all entities within the Clipper Group. The Clipper Group has not in the past constituted a separate legal group.

### (b) Merger reserve

As described above, the group reorganisation is a combination of entities under common control; and consolidated using a pooling of interests basis. This treats the restructured group as if it was formed in May 2010 and a merger reserve has been included to reflect this, with a balance of £18,168,000 at this date. In the year ended 30 April 2014 a charge of £12,162,000 was made to the reserve to reflect the acquisition of the fellow subsidiaries from Clipper Group Holdings Limited as part of the group reorganisation.

### (c) Consolidations

Subsidiaries are consolidated from the date of acquisition being the date on which the Group obtains control, and are consolidated until the date such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of its voting rights. The financial statements of subsidiaries used in the preparation of the consolidated Financial Statements are prepared on the same reporting year as the parent company and are based on consistent accounting policies. All intra Group balances and transactions, including unrealised profits from them, are eliminated in full.

A change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the parent company and is presented within equity in the consolidated statement of financial position separately from equity attributable to owners of the parent company.

# Notes to the Group Financial Statements

continued

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group other than those included in the restructuring referred to above. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Company's Board of Directors, collectively the Group's chief operating decision maker, to assess performance and allocate capital or resources.

## 2.5 Foreign currency translation

**(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The combined Financial Statements are presented in Pounds Sterling, which is the Company's functional and presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

## 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Leasehold property over the length of the lease;
- Plant and machinery 5% - 50% per annum; and
- Motor vehicles 12.5% - 25% per annum.

Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other net gains' in the Statement of Comprehensive Income.

## 2.7 Intangible assets

**(a) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is "negative goodwill" and is recognised in the Statement of Comprehensive Income immediately.

# Notes to the Group Financial Statements
continued

Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates' and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

**(b) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

## 2.8 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 to sell and its value in use.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs.

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. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

An impairment loss is recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a minimum period of two years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the second year.

## 2.9 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**(a) Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

**(b) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

# Notes to the Group Financial Statements

continued

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within 'other net gains' in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the Statement of Comprehensive Income as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the Statement of Comprehensive Income.

Impairment testing of trade receivables is described in note 2.12.

### 2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Cost is determined using the first-in, first-out ("FIFO") method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.11 Vehicles on consignment

Vehicles held on consignment from manufacturers are included in the statement of financial position where it is considered that the Group enjoys the benefits and carries the risks of ownership.

### 2.12 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income within 'administrative expenses'.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expenses' in the Statement of Comprehensive Income.

### 2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Cash and cash equivalents are stated net of bank overdrafts in the cash flow statement.

### 2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.16 Income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements.

However, the deferred income tax is not accounted for, if it arises from initial recognition of goodwill or an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profits or losses.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

# Notes to the Group Financial Statements

continued

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

## 2.17 Employee benefits

**(a) Pension obligations**

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies. The Group has only defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity.

For defined contribution plans, the Group pays contributions to privately administered pension insurance plans on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

**(b) Profit-sharing and bonus plans**

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

**(c) Share based payments**

IFRS 2 requires the recognition of equity settled share based payments at fair value at the date of the grant and the recognition of liabilities for cash settled share based payments at the current fair value at each balance sheet date. All equity settled share based payments are ultimately recognised as an expense in the profit and loss account with a corresponding credit to 'other reserves'.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period based on the best available estimate of the number of shares expected to vest. Estimates are revised subsequently if there is any indication that the number of shares expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and where appropriate, share premium.

## 2.18 Provisions

Provisions for items such as dilapidations and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. In practice this means that revenue is generally recognised as follows:

- Value-added logistics services – revenue is recognised when the service is rendered
- Distribution of commercial vehicles – revenue is recognised when goods and/or services are supplied or, for services under repair contracts, over the period of the contract.

## 2.20 Grants

Grants received in relation to the purchase of non-current assets are released to the Statement of Comprehensive Income in proportion to the depreciation or amortisation charge in respect of those assets.

# Notes to the Group Financial Statements

continued

### 2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and finance charges in the income statement so as to achieve a constant rate of interest on the remaining balance of the liability. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the estimated useful life of the asset and the lease term; where the lease contains an option to purchase which is expected to be exercised, the asset is depreciated over the useful life of the asset. The accounting policy adopted for finance leases is also applied to hire purchase agreements.

### 2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's Financial Statements in the period in which the dividends are approved by the Company's shareholders.

### 2.23 Exceptional items

Items that are both material and non-recurring are presented as exceptional items within their relevant consolidated Statement of Comprehensive Income category. The separate reporting of exceptional items helps provide a clearer indication of the Group's underlying business performance.

Items which may give rise to classification as exceptional include, but are not limited to, restructuring of the business or depot network, asset impairments and litigation settlements.

### 2.24 Financial risk management

The Group carries out treasury hedging activities to manage exposures to interest rate movements on its core borrowings using interest rate swaps and forward contracts.

The Group only uses derivatives for hedging purposes and they are recognised at fair value and are re-measured to fair value at each balance sheet date. Where an interest rate swap qualifies as an effective hedge under IAS 39, movements in fair value are shown as an adjustment to the net interest charge being hedged.

Movements in fair value of derivatives that do not qualify as an effective hedge under IAS 39 are shown in 'other net gains' within the Statement of Comprehensive Income. The Group identifies, evaluates and hedges financial risks centrally under policies approved by the Board covering specific areas, such as interest rate risk, foreign exchange risk and credit risk.

### 2.25 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (a) Estimated impairment of goodwill

The Group annually tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, both in arriving at the expected future cash flows and the application of a suitable discount rate in order to calculate the present value of these flows.

#### (b) Income taxes

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

# Notes to the Group Financial Statements

continued

### 2.26. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 2.27. Adoption of new and revised reporting standards

The Group has applied all accounting standards and interpretations issued by the IASB and IFRIC except for the following standards and interpretations which were in issue but not yet effective:

- IAS 32 (revised) – 'Offsetting financial assets and financial liabilities – Amendments to IAS 32 effective for annual periods commencing on or after 1 January 2014';
- IFRS 7 – 'Financial Instruments: Disclosures (Amendment) – initial application of IFRS 9 effective for annual periods commencing on or after 1 January 2014';
- IFRS 9 – 'Financial instruments: Classification and measurement effective for annual periods commencing on or after 1 January 2018';
- IFRS 10 – 'Consolidated Financial Statements, effective for annual periods commencing on or after 1 January 2014';
- IFRS 11 – 'Joint Arrangements effective for annual periods commencing on or after 1 January 2014';
- IFRS 12 – 'Disclosure of Interests in other entities effective for annual periods commencing on or after 1 January 2014';
- IFRS 15 – Revenue from Contracts with Customers, was issued by the IASB on 28 May 2014 and is effective for annual periods commencing on or after 1 January 2017;
- IAS 27 – 'Separate Financial Statements effective for annual periods on or after 1 January 2014';
- IAS 28 – 'Investments in Associates and Joint Ventures effective for annual periods on or after 1 January 2014';
- IAS 36 – 'Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 effective for annual periods on or after 1 January 2014';
- IAS 39 – 'Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39 effective for annual periods on or after 1 January 2014';
- IFRIC 21 – 'Levies effective for annual periods on or after 1 January 2014';
- IAS 19 – 'Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 effective for annual periods on or after 1 July 2014';
- AIP IFRS 2 – 'Share-based Payment – Definitions of vesting conditions effective for annual periods on or after 1 July 2014';
- AIP IFRS 3 – 'Business Combinations – Accounting for contingent consideration in a business combination effective for annual periods on or after 1 July 2014';
- AIP IFRS 8 – 'Operating Segments – Aggregation of operating segments effective for annual periods on or after 1 July 2014';
- AIP IFRS 8 – 'Operating Segments – Reconciliation of the total of the reportable segments' assets to the entity's assets effective for annual periods on or after 1 July 2014';
- AIP IFRS 13 – 'Fair Value Measurement – Short-term receivables and payables effective for annual periods on or after 1 July 2014';
- AIP IAS 16 – 'Property, Plant and Equipment and IAS 38 Intangible Assets – Revaluation method – proportionate restatement of accumulated depreciation/amortisation effective for annual periods on or after 1 July 2014';
- AIP IAS 24 – 'Related Party Disclosures – Key management personnel effective for annual periods on or after 1 July 2014';
- AIP IFRS 1 – 'First-time Adoption of International Financial Reporting Standards – Meaning of 'effective IFRSs' effective for annual periods on or after 1 July 2014';
- AIP IFRS 3 – 'Business Combinations – Scope exceptions for joint ventures effective for annual periods on or after 1 July 2014';
- AIP IFRS 13 – 'Fair Value Measurement – Scope of paragraph 52 (portfolio exception) effective for annual periods on or after 1 July 2014';
- AIP IAS 40 – 'Investment Property – Interrelationship between IFRS 3 and IAS 40 (ancillary services) effective for annual periods on or after 1 July 2014'; and
- IFRS 14 – 'Regulatory Deferral Accounts effective for annual periods on or after 1 January 2016'.

The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations.

As the Group prepares its financial information in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to them having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

The Directors do not anticipate that the adoption of the remaining standards and interpretations will have a material impact on the Group's historical financial information in the period of initial application.

# Notes to the Group Financial Statements

continued

### 3. Revenue

**Revenue recognised in the income statement is analysed as follows:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| E-fulfilment logistics services | **46,046** | 29,605 | 19,307 | 16,448 |
| Non E-fulfilment logistics services | **89,557** | 69,282 | 73,296 | 75,481 |
| **Value-added logistics services** | **135,603** | 98,887 | 92,603 | 91,929 |
| **Distribution of commercial vehicles** | **66,796** | 62,947 | 74,735 | 73,710 |
| **Inter-segment sales** | **(1,151)** | (1,131) | (815) | (657) |
| **Revenue from external customers** | **201,248** | 160,703 | 166,523 | 164,982 |

**Geographical information - revenues from external customers:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| **United Kingdom** | **186,462** | 149,246 | 153,525 | 155,017 |
| **Germany** | **13,112** | 10,591 | 10,231 | 9,331 |
| **Rest of Europe** | **1,674** | 866 | 2,767 | 634 |
| **Total** | **201,248** | 160,703 | 166,523 | 164,982 |

*Geography is determined by the location of the end customer*

# Notes to the Group Financial Statements

continued

### 4. Segment information

For the Group, the Chief Operating Decision Maker ("CODM") is the main Board of Directors. The CODM monitors the operating results of each business unit separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss, both before and after exceptional items. This measurement basis excludes Group-wide central services and financing costs which are not allocated to operating segments.

For management purposes, the Group is organised into two main reportable segments:

- Value-added logistics services
- Distribution of commercial vehicles, including sales, servicing and repairs

Within the value-added logistics services segment, the CODM also reviews performance of three separate business activities:

- E-fulfilment logistics services
- Non E-fulfilment logistics services
- Central logistics overheads, being the costs of support services specific to the value-added logistics services segment, but which are impractical to allocate between the sub-segment activities

Inter-segment transactions are entered into under normal commercial terms and conditions and on an arm's length basis that would also be available to unrelated third parties.

The following tables present profit information for continuing operations regarding the Group's business segments for the four years ended 30 April 2014:

**Operating profit before non-recurring items:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| E-fulfilment logistics | **3,724** | 2,492 | 1,938 | 1,280 |
| Non E-fulfilment logistics | **9,163** | 7,910 | 7,740 | 8,140 |
| Central logistics overheads | **(4,228)** | (2,408) | (1,639) | (2,403) |
| **Value-added logistics services** | **8,659** | 7,994 | 8,039 | 7,017 |
| **Distribution of commercial vehicles** | **1,836** | 1,464 | 1,299 | 1,903 |
| **Head office costs – continuing** | **(882)** | (721) | (671) | (672) |
| **Group operating profit before non-recurring items** | **9,613** | 8,737 | 8,667 | 8,248 |

# Notes to the Group Financial Statements

continued

## 4. Segment information (continued)

**Exceptional and discontinuing costs:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| E-fulfilment logistics | **(10)** | (208) | - | - |
| Non E-fulfilment logistics | **-** | - | (51) | (1,121) |
| Central logistics | **(30)** | - | (36) | (21) |
| **Value-added logistics services** | **(40)** | (208) | (87) | (1,142) |
| **Distribution of commercial vehicles** | **(495)** | (184) | - | (3) |
| **Segment total exceptional items** | **(535)** | (392) | (87) | (1,145) |
| **IPO costs[1]** | **(1,981)** | - | - | - |
| **Head office costs – discontinuing[2]** | **(2,297)** | (2,137) | (1,991) | (1,508) |
| **Group total exceptional and discontinuing costs** | **(4,813)** | (2,529) | (2,078) | (2,653) |

**Operating profit and profit before income tax:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| **Operating profit:** | | | | |
| E-fulfilment logistics | **3,714** | 2,284 | 1,938 | 1,280 |
| Non E-fulfilment logistics | **9,163** | 7,910 | 7,689 | 7,019 |
| Central logistics overheads | **(4,258)** | (2,408) | (1,675) | (2,424) |
| **Value-added logistics services** | **8,619** | 7,786 | 7,952 | 5,875 |
| **Distribution of commercial vehicles** | **1,341** | 1,280 | 1,299 | 1,900 |
| **IPO costs[1]** | **(1,981)** | - | - | - |
| **Head office costs[2]** | **(3,179)** | (2,858) | (2,662) | (2,180) |
| **Group operating profit** | **4,800** | 6,208 | 6,589 | 5,595 |
| **Finance costs** | **(952)** | (1,005) | (1,419) | (1,003) |
| **Finance income** | **101** | 3 | 55 | 82 |
| **Profit before income tax** | **3,949** | 5,206 | 5,225 | 4,674 |

[1] *Professional fees and other costs paid in relation to the Initial Public Offering.*

[2] *Head office costs include a number of items which will not be borne by the Group post-Admission. These consist of certain advertising, sponsorship and corporate entertaining expenses, remuneration of a retiring Director, consultancy and professional fees in respect of potential investment opportunity appraisals and the costs of operating the Chairman's private office.*

# Notes to the Group Financial Statements

continued

The Group has one customer that in the year ended 30 April 2013 accounted for greater than 10% of the total Group revenue. The revenue from this customer all arose within the value-added logistics services segment as follows:

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Revenue | - | 18,999 | - | - |

**The segment assets and liabilities at the balance sheet date are as follows:**

| At 1 May 2010: | Segment assets £'000 | Segment liabilities £'000 |
|---|---|---|
| Value-added logistics services | 42,082 | (15,770) |
| Distribution of commercial vehicles | 28,123 | (21,067) |
| Segment assets/(liabilities) | 70,205 | (36,837) |
| Unallocated assets/(liabilities): | | |
| - Cash and cash equivalents | 320 | |
| - Financial liabilities | | (11,213) |
| - Deferred tax | | (357) |
| - Income tax assets/(liabilities) | | (179) |
| Total assets/(liabilities) | 70,525 | (48,586) |

| At 30 April 2011: | Segment assets £'000 | Segment liabilities £'000 |
|---|---|---|
| Value-added logistics services | 38,117 | (13,317) |
| Distribution of commercial vehicles | 35,822 | (30,159) |
| Segment assets/(liabilities) | 73,939 | (43,476) |
| Unallocated assets/(liabilities): | | |
| - Cash and cash equivalents | 156 | |
| - Financial liabilities | | (5,150) |
| - Deferred tax | | (391) |
| - Income tax assets/(liabilities) | | (803) |
| Total assets/(liabilities) | 74,095 | (49,820) |

# Notes to the Group Financial Statements

continued

## 4. Segment information (continued)

| At 30 April 2012: | Segment assets £'000 | Segment liabilities £'000 |
|---|---|---|
| Value-added logistics services | 38,878 | (15,034) |
| Distribution of commercial vehicles | 32,387 | (24,625) |
| Segment assets/(liabilities) | 71,265 | (39,659) |
| Unallocated assets/(liabilities): | | |
| - Cash and cash equivalents | 2,231 | |
| - Financial liabilities | | (6,647) |
| - Deferred tax | | (624) |
| - Income tax assets/(liabilities) | | (689) |
| Total assets/(liabilities) | 73,496 | (47,619) |

| At 30 April 2013: | Segment assets £'000 | Segment liabilities £'000 |
|---|---|---|
| Value-added logistics services | 43,253 | (19,023) |
| Distribution of commercial vehicles | 28,251 | (19,345) |
| Segment assets/(liabilities) | 71,504 | (38,368) |
| Unallocated assets/(liabilities): | | |
| - Cash and cash equivalents | 2,849 | |
| - Financial liabilities | | (7,867) |
| - Deferred tax | | (672) |
| - Income tax assets/(liabilities) | | (530) |
| Total assets/(liabilities) | 74,353 | (47,437) |

| At 30 April 2014: | Segment assets £'000 | Segment liabilities £'000 |
|---|---|---|
| Value-added logistics services | 44,376 | (27,249) |
| Distribution of commercial vehicles | 38,391 | (25,321) |
| Segment assets/(liabilities) | 82,767 | (52,570) |
| Unallocated assets/(liabilities): | | |
| - Cash and cash equivalents | 5,360 | |
| - Financial liabilities | | (23,401) |
| - Deferred tax | | (366) |
| - Income tax assets/(liabilities) | | (318) |
| Total assets/(liabilities) | 88,127 | (76,655) |

# Notes to the Group Financial Statements
continued

## 4. Segment information (continued)

**Capital expenditure, depreciation and amortisation by segment in the year ended 30 April was as follows:**

**Capital expenditure:**

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Value-added logistics services | 4,203 | 4,604 | 2,025 | 213 |
| Distribution of commercial vehicles | 936 | 1,011 | 693 | 791 |
| Total | 5,139 | 5,615 | 2,718 | 1,004 |

*Capital expenditure comprises additions to property, plant and equipment (note 13) and intangible assets (note 14).*

**Depreciation:**

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Value-added logistics services | 3,100 | 2,108 | 2,087 | 2,168 |
| Distribution of commercial vehicles | 585 | 495 | 490 | 450 |
| Total | 3,685 | 2,603 | 2,577 | 2,618 |

**Amortisation:**

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Value-added logistics services | 212 | 141 | 113 | 139 |
| Distribution of commercial vehicles | 7 | 15 | 22 | 38 |
| Total | 219 | 156 | 135 | 177 |

**Non-current assets held by each Geographical area are made up as follows:**

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| United Kingdom | 32,621 | 32,403 | 30,195 | 30,914 |
| Germany | 2,789 | 1,809 | 1,699 | 1,582 |
| Total | 35,410 | 34,212 | 31,894 | 32,496 |

# Notes to the Group Financial Statements

continued

## 5. Staff costs

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Wages and salaries | 52,594 | 41,743 | 40,414 | 39,781 |
| Social security costs | 4,839 | 3,992 | 3,952 | 3,995 |
| Pension costs for the defined contribution scheme | 883 | 737 | 739 | 610 |
| Share based payments | 180 | 57 | 19 | 9 |
| Total | 58,496 | 46,529 | 45,124 | 44,395 |

The average monthly number of employees during the period was made up as follows:

| | 2014 Group Number | 2013 Group Number | 2012 Group Number | 2011 Group Number |
|---|---|---|---|---|
| Warehousing | 1,433 | 1,119 | 1,001 | 1,071 |
| Distribution | 379 | 336 | 350 | 364 |
| Service and maintenance | 237 | 216 | 233 | 221 |
| Administration | 334 | 327 | 327 | 301 |
| Total | 2,383 | 1,998 | 1,911 | 1,957 |

Key management compensation (including Executive Directors):

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Wages and salaries | 2,411 | 2,340 | 2,171 | 2,012 |
| Social security costs | 333 | 323 | 299 | 257 |
| Pension costs for the defined contribution scheme | 389 | 397 | 433 | 494 |
| Share based payments | 180 | 57 | 19 | 9 |
| Total | 3,313 | 3,117 | 2,922 | 2,772 |

# Notes to the Group Financial Statements
continued

### 5. Staff costs (continued)

Directors' emoluments:

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Aggregate emoluments | 1,300 | 1,155 | 1,046 | 1,017 |
| Pension costs for the defined contribution scheme | 139 | 92 | 125 | 135 |
| Total | 1,439 | 1,247 | 1,171 | 1,152 |

The number of Directors who were accruing benefits under a Group Pension Scheme is as follows:

| | 2014 Group Number | 2013 Group Number | 2012 Group Number | 2011 Group Number |
|---|---|---|---|---|
| Defined contribution plans | 5 | 5 | 5 | 5 |

Emoluments in respect of the highest paid Director:

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Aggregate emoluments | 500 | 359 | 327 | 320 |
| Pension costs for the defined contribution scheme | 15 | 15 | 17 | 15 |
| Total | 515 | 374 | 344 | 335 |

# Notes to the Group Financial Statements

continued

## 6. Group operating profit

This is stated after charging/(crediting):

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Depreciation of property, plant and equipment - owned assets | 1,760 | 1,754 | 1,558 | 1,589 |
| Depreciation of property, plant and equipment - leased assets | 1,925 | 849 | 1,019 | 1,029 |
| Amortisation of intangibles assets (included within administration & other expenses) | 219 | 156 | 135 | 177 |
| Total depreciation and amortisation expense | 3,904 | 2,759 | 2,712 | 2,795 |
| Operating lease rentals | | | | |
| - Plant and machinery | 6,672 | 5,583 | 5,850 | 5,421 |
| - Land and buildings | 12,658 | 9,195 | 9,020 | 9,181 |
| Loss arising on the Clipper Group Employee Benefit Trust | - | 5 | - | 5 |
| Auditors' remuneration: | | | | |
| EY LLP | | | | |
| - Group audit fees | 135 | - | - | - |
| - Tax services | - | - | - | - |
| - Corporate finance services | 565 | - | - | - |
| Baker Tilly UK Audit LLP & Associates | | | | |
| - Group audit fees | 6 | 78 | 75 | 72 |
| - Tax services | 24 | 51 | 46 | 1 |
| - Corporate finance services | - | - | 16 | 67 |
| Total auditors' remuneration: | | | | |
| - Audit of the Group Financial Statements | 50 | 20 | 20 | 20 |
| - Audit of the subsidiaries | 91 | 58 | 55 | 52 |
| - Non-audit fees | 589 | 51 | 62 | 68 |
| Total fees paid to the Group's auditors | 730 | 129 | 137 | 140 |
| Exceptional items: | | | | |
| - Closure of depots | 363 | 184 | - | 981 |
| - Redundancy costs on reorganisation | 162 | - | 87 | 164 |
| - Aborted contract exit costs | 10 | 208 | - | - |
| - IPO transaction costs | 1,981 | - | - | - |
| Total exceptional items | 2,516 | 392 | 87 | 1,145 |
| Other net gains: | | | | |
| - Profit on sale of property, plant and equipment | 26 | 302 | 1,202 | 74 |
| - Dealership contributions | 259 | 136 | - | 203 |
| - Amortisation of grants | - | - | 1 | 35 |
| Total net gains | 285 | 438 | 1,203 | 312 |

# Notes to the Group Financial Statements
continued

### 7. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

**The following reflects the income and share data used in the basic earnings per share computation:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| **Profit attributable to ordinary equity holders of the Company** | **2,826** | 3,766 | 3,820 | 3,142 |
| | **Thousands** | Thousands | Thousands | Thousands |
| **Basic weighted average number of shares** | **99,160** | 99,158 | 99,158 | 99,158 |
| **Basic and diluted earnings per share** | **2.8p** | 3.8p | 3.9p | 3.2p |

*The weighted average number of shares has been calculated assuming all shares were converted from £1 to 0.05p shares as from 1 May 2010 in accordance with IAS 33.28.*

**Adjusted earnings per share**

As set out in note 22, during the year to 30 April 2014 there was a group reorganisation involving both an issue and a subdivision of shares.

In addition, there was a large amount of non-recurring costs. Consequently, the basic measure of earnings per share is significantly distorted by these factors.

Adjusting earnings to exclude discontinuing and exceptional costs and the tax effect thereon, gives adjusted earnings of £6,540,000 for the year to 30 April 2014 (2013: £5,690,000, 2012: £5,361,000, 2011: £5,056,000).

**Adjusted earnings per share:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| **Profit attributable to ordinary equity holders of the Company** | **2,826** | 3,766 | 3,820 | 3,142 |
| **Discontinuing costs** | **2,297** | 2,137 | 1,991 | 1,508 |
| **Exceptional costs** | **2,516** | 392 | 87 | 1,145 |
| **Tax effect at standard rate** | **(1,099)** | (605) | (537) | (739) |
| **Adjusted earnings** | **6,540** | 5,690 | 5,361 | 5,056 |
| | **Thousands** | Thousands | Thousands | Thousands |
| **Basic weighted average number of shares** | **99,160** | 99,158 | 99,158 | 99,158 |
| **Adjusted basic and diluted earnings per share** | **6.6p** | 5.7p | 5.4p | 5.1p |

# Notes to the Group Financial Statements

continued

## 8. Dividends and other distributions

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Dividends declared and paid by the Company during the year to former parent company* | 2,500 | 2,800 | 1,600 | 801 |
| Dividends declared and paid by other Group members | 3,849 | - | 663 | - |
| Payments charged to merger reserve in respect of the transfer of subsidiaries | 12,162 | - | - | - |
| Total distributions | 18,511 | 2,800 | 2,263 | 801 |
| *Dividend per 'A' ordinary share | £649.02 | £726.91 | £415.37 | £207.97 |

## 9. Finance income

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Bank interest | - | 3 | 4 | 55 |
| Other interest | 1 | - | - | - |
| Amounts receivable from former parent company | 100 | - | 51 | 27 |
| Total interest income for financial assets measured at amortised cost | 101 | 3 | 55 | 82 |

## 10. Finance costs

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| On bank loans and overdrafts | 19 | 44 | 115 | 295 |
| On hire purchase agreements | 292 | 175 | 279 | 246 |
| Amortisation of debt issue costs | - | - | 153 | - |
| Commercial vehicle stocking interest | 305 | 444 | 311 | 267 |
| Other interest payable | 38 | 23 | 144 | 56 |
| Amounts payable to former parent company | 298 | 319 | 417 | 139 |
| Total interest expense for financial liabilities measured at amortised cost | 952 | 1,005 | 1,419 | 1,003 |

# Notes to the Group Financial Statements

continued

## 11. Income tax expense

### a) Tax charged in the income statement:

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Current income tax: | | | | |
| UK & foreign corporation tax | 1,408 | 1,366 | 1,194 | 1,469 |
| Amounts under (over) provided in previous years | 3 | 16 | (15) | 29 |
| Total income tax on continuing operations | 1,411 | 1,382 | 1,179 | 1,498 |
| Deferred tax: | | | | |
| Origination and reversal of temporary difference | (267) | 30 | 227 | (90) |
| Amounts under (over) provided in previous years | 4 | - | - | - |
| Impact of change in tax laws and rates | (45) | 20 | (1) | 124 |
| Total deferred tax | (308) | 50 | 226 | 34 |
| Tax expense in the income statement on continuing operations | 1,103 | 1,432 | 1,405 | 1,532 |

### b) Tax relating to items charged or credited to other comprehensive income:

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| Deferred tax: | | | | |
| Exchange differences on retranslation of foreign operations | - | - | - | - |
| Changes in tax laws and rates | - | - | - | - |
| Total deferred tax | - | - | - | - |
| Tax expense in the statement of other comprehensive income | - | - | - | - |

# Notes to the Group Financial Statements

continued

**c) Reconciliation of income tax charge:**

The income tax expense in the income statement for the period differs from the standard rate of corporation tax in the UK. The differences are reconciled below:

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| **Profit before taxation from continuing operations** | **3,949** | 5,206 | 5,225 | 4,674 |
| **Standard rate of corporation tax in UK** | **22.84%** | 23.92% | 25.84% | 27.84% |
| **Tax on profit on ordinary activities at standard rate** | **902** | 1,245 | 1,350 | 1,301 |
| **Expenses not allowable for tax purposes** | **223** | 100 | 84 | 132 |
| **Tax under (over) provided in previous years** | **7** | 16 | (15) | 29 |
| **Difference in tax rates overseas** | **16** | 42 | - | - |
| **Utilisation of previously unrecognised tax losses** | **-** | - | (13) | (54) |
| **Deferred tax rate difference** | **(45)** | 29 | (1) | 124 |
| **Total tax expense reported in the income statement** | **1,103** | 1,432 | 1,405 | 1,532 |

**d) Deferred tax in the income statement:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 |
|---|---|---|---|---|
| **Deferred tax on accelerated capital allowances** | **(261)** | (36) | (149) | (170) |
| **Deferred tax on other temporary differences** | **(47)** | (14) | (77) | 136 |
| | **(308)** | (50) | (226) | (34) |

The UK corporation tax rate reduced from 28% to 26% with effect from 1 April 2011, from 26% to 24% with effect from 1 April 2012, from 24% to 23% with effect from 1 April 2013, and from 23% to 21% with effect from 1 April 2014. A further reduction to 20% is effective from 1 April 2015. Accordingly, these rates have been applied in the measurement of the Group's deferred tax assets and liabilities as at 30 April 2014.

**e) Deferred tax in the statement of financial position:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| **Deferred tax liability:** | | | | | |
| **Accelerated capital allowances** | **(466)** | (727) | (691) | (542) | (372) |
| **Deferred tax asset:** | | | | | |
| **Provisions & other timing differences** | **100** | 55 | 67 | 151 | 15 |
| **Net deferred tax liability** | **(366)** | (672) | (624) | (391) | (357) |

# Notes to the Group Financial Statements

continued

### 12. Share based payments

The Enterprise Management Incentive Plan ("EMI Plan") was introduced by Clipper Group Holdings Ltd in January 2004. Under the EMI Plan the former parent company directors could grant options over shares in the former parent company to employees of any group company.

Options were granted with a fixed exercise price equal to the nominal value of the shares under option at the date of grant. The contractual life of an option is 10 years. Awards under the EMI Plan are generally reserved for employees at senior management level and above and at 30 April 2014 two (2013: three, 2012: three, 2011: three, 1 May 2010: three) such awards had been made to employees of the Group. There are no reload features.

The Unapproved Share Option Scheme ("Unapproved Scheme") was introduced by Clipper Group Holdings Ltd in June 2011. Under the Unapproved Scheme the former parent company directors could grant options over shares in the former parent company to employees of any group company.

Options were granted with a fixed exercise price equal to the nominal value of the shares under option at the date of grant. The contractual life of an option is 15 years. Awards under the Unapproved Scheme are generally reserved for employees at senior management level and above and at 30 April 2014 four (2013: three, 2012: two, 2011: none, 1 May 2010: none) such awards had been made.

These options would be equity settled.

Options granted under the EMI Plan or Unapproved Scheme would only become exercisable on the sale or flotation of the former parent company, and were subject to specific performance criteria for each award, generally applicable to the senior manager's employing company. Exercise of an option is subject to continued employment.

The fair value of the options granted were valued using the methodology of an HM Revenue & Customs approved valuation of existing shares in 2010, applied to current financial information at the time of grant. The fair value assumes that all performance criteria are met. The expected life is the average expected period to exercise. Volatility and dividend yield have not been included in the calculation as there is no ready market in the former parent company's shares. The weighted average exercise price of options in issue is £1.00.

**A reconciliation of option movements over the year is as follows:**

| | **2014 Number** | 2013 Number | 2012 Number | 2011 Number |
|---|---|---|---|---|
| **Outstanding at 1 May** | **394** | 336 | 249 | 249 |
| **Granted** | **58** | 58 | 87 | - |
| **Lapsed** | **(83)** | - | - | - |
| **Outstanding at 30 April** | **369** | 394 | 336 | 249 |
| **Exercisable** | **-** | - | - | - |

*The total charge for the year ended 30 April 2014 relating to employee share based payment plans was £180,000 (2013: £57,000, 2012: £19,000, 2011: £9,000, 1 May 2010: £15,000). All outstanding options were waived in May 2014.*

# Notes to the Group Financial Statements
continued

## 13. Property, plant and equipment

Group:

| | Leasehold property £'000 | Motor vehicles £'000 | Plant, machinery, fixtures & fittings £'000 | Total £'000 |
|---|---|---|---|---|
| COST | | | | |
| At 1 May 2010 | 3,085 | 3,863 | 20,995 | 27,943 |
| Additions | 86 | 304 | 610 | 1,000 |
| Disposals | (146) | (1,514) | (285) | (1,945) |
| Foreign currency adjustment | - | 5 | 20 | 25 |
| At 30 April 2011 | 3,025 | 2,658 | 21,340 | 27,023 |
| Additions | 167 | 777 | 1,751 | 2,695 |
| Disposals | (55) | (1,081) | (2,779) | (3,914) |
| Foreign currency adjustment | - | (17) | (69) | (86) |
| At 30 April 2012 | 3,137 | 2,337 | 20,243 | 25,717 |
| Additions | 329 | 1,156 | 3,614 | 5,099 |
| Disposals | (27) | (572) | (1,170) | (1,769) |
| Foreign currency adjustment | - | 9 | 37 | 46 |
| At 30 April 2013 | 3,439 | 2,931 | 22,723 | 29,093 |
| Acquisitions | 37 | 12 | 78 | 127 |
| Additions | 586 | 1,215 | 2,929 | 4,730 |
| Disposals | (58) | (528) | (159) | (745) |
| Foreign currency adjustment | (1) | (10) | (34) | (45) |
| At 30 April 2014 | 4,003 | 3,620 | 25,537 | 33,160 |

# Notes to the Group Financial Statements
continued

### 13. Property, plant and equipment (continued)

**Group:**

| | Leasehold property £'000 | Motor vehicles £'000 | Plant, machinery, fixtures & fittings £'000 | Total £'000 |
|---|---|---|---|---|
| **ACCUMULATED DEPRECIATION** | | | | |
| At 1 May 2010 | 1,050 | 2,553 | 9,041 | 12,644 |
| Charge for the period | 222 | 497 | 1,900 | 2,619 |
| Disposals | (146) | (1,199) | (270) | (1,615) |
| Foreign currency adjustment | - | 3 | 4 | 7 |
| At 30 April 2011 | 1,126 | 1,854 | 10,675 | 13,655 |
| Charge for the period | 236 | 375 | 1,966 | 2,577 |
| Disposals | (55) | (795) | (2,510) | (3,360) |
| Foreign currency adjustment | - | (9) | (23) | (32) |
| At 30 April 2012 | 1,307 | 1,425 | 10,108 | 12,840 |
| Charge for the period | 230 | 415 | 1,958 | 2,603 |
| Disposals | (27) | (445) | (737) | (1,209) |
| Foreign currency adjustment | - | 6 | 18 | 24 |
| At 30 April 2013 | 1,510 | 1,401 | 11,347 | 14,258 |
| Charge for the period | 250 | 596 | 2,839 | 3,685 |
| Disposals | (58) | (383) | (159) | (600) |
| Foreign currency adjustment | (1) | (6) | (19) | (26) |
| At 30 April 2014 | 1,701 | 1,608 | 14,008 | 17,317 |
| **NET BOOK VALUE** | | | | |
| At 1 May 2010 | 2,035 | 1,310 | 11,954 | 15,299 |
| At 30 April 2011 | 1,899 | 804 | 10,665 | 13,368 |
| At 30 April 2012 | 1,830 | 913 | 10,134 | 12,877 |
| At 30 April 2013 | 1,929 | 1,530 | 11,376 | 14,835 |
| At 30 April 2014 | 2,302 | 2,012 | 11,529 | 15,843 |

*Included within property, plant and equipment are amounts held under finance lease contracts. At 30 April 2014 the net book value of these assets was £4,767,000 (30 April 2013: £2,503,000, 30 April 2012: £2,567,000, 30 April 2011: £4,853,000, 1 May 2010: £3,416,000).*

# Notes to the Group Financial Statements

continued

### 14. Intangible assets

**Group:**

| | Goodwill £'000 | Contracts and Licenses £'000 | Computer Software £'000 | Total £'000 |
|---|---|---|---|---|
| **COST:** | | | | |
| At 1 May 2010 | 18,785 | 723 | 929 | 20,437 |
| Additions | - | - | 4 | 4 |
| Disposals | - | - | - | - |
| At 30 April 2011 | 18,785 | 723 | 933 | 20,441 |
| Additions | - | - | 23 | 23 |
| Disposals | - | - | (59) | (59) |
| At 30 April 2012 | 18,785 | 723 | 897 | 20,405 |
| Additions | - | - | 516 | 516 |
| Disposals | - | - | - | - |
| At 30 April 2013 | 18,785 | 723 | 1,413 | 20,921 |
| Additions | 233 | - | 176 | 409 |
| Disposals | - | - | - | - |
| At 30 April 2014 | 19,018 | 723 | 1,589 | 21,330 |

# Notes to the Group Financial Statements

continued

## 14. Intangible assets (continued)

**Group:**

| | Goodwill £'000 | Contracts and Licenses £'000 | Computer Software £'000 | Total £'000 |
|---|---|---|---|---|
| **ACCUMULATED AMORTISATION:** | | | | |
| At 1 May 2010 | - | 723 | 413 | 1,136 |
| Charge for the period | - | - | 177 | 177 |
| At 30 April 2011 | - | 723 | 590 | 1,313 |
| Charge for the period | - | - | 135 | 135 |
| Disposals | - | - | (60) | (60) |
| At 30 April 2012 | - | 723 | 665 | 1,388 |
| Charge for the period | - | - | 156 | 156 |
| At 30 April 2013 | - | 723 | 821 | 1,544 |
| Charge for the period | - | - | 219 | 219 |
| At 30 April 2014 | - | 723 | 1,040 | 1,763 |
| **NET BOOK VALUE:** | | | | |
| At 1 May 2010 | 18,785 | - | 516 | 19,301 |
| At 30 April 2011 | 18,785 | - | 343 | 19,128 |
| At 30 April 2012 | 18,785 | - | 232 | 19,017 |
| At 30 April 2013 | 18,785 | - | 592 | 19,377 |
| At 30 April 2014 | 19,018 | - | 549 | 19,567 |

# Notes to the Group Financial Statements
continued

## 15. Impairment test for goodwill

**The carrying amount of goodwill has been allocated to cash generating units ("CGU"s) as follows:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| **Value-added logistics services** | **13,092** | 12,859 | 12,859 | 12,859 | 12,859 |
| **Distribution of commercial vehicles** | **5,926** | 5,926 | 5,926 | 5,926 | 5,926 |
| | **19,018** | 18,785 | 18,785 | 18,785 | 18,785 |

The recoverable amount of a CGU is determined based on value-in-use calculations.

The value-in-use calculations have used pre-tax cash flow projections based on the Board approved business plans for the two years ending 30 April 2016. Subsequent cash flows are extrapolated using an estimated long term growth rate of 2.5% to 2025. The cash flows have then been discounted using a pre-tax risk adjusted discount rate of 10%.

The pre-tax adjusted discount rate has been estimated based on other similar sized companies in similar industries.

The Directors have concluded that no reasonably foreseeable change in the key assumptions would give rise to an impairment.

# Notes to the Group Financial Statements
continued

## 16. Inventories

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| Component parts and consumable stores | 3,427 | 3,723 | 4,211 | 4,016 | 3,118 |
| Commercial vehicles | 2,669 | 2,121 | 2,953 | 2,605 | 1,799 |
| Commercial vehicles on consignment | 12,929 | 8,502 | 11,663 | 14,192 | 10,599 |
| Total inventories | 19,025 | 14,346 | 18,827 | 20,813 | 15,516 |

See below for the movements in the provision for obsolescence:

| | Group £'000 |
|---|---|
| At 1 May 2010 | 101 |
| Charged for the year | 40 |
| Utilised | (30) |
| At 30 April 2011 | 111 |
| Charged for the year | 45 |
| Utilised | (51) |
| At 30 April 2012 | 105 |
| Charged for the year | 65 |
| Utilised | (66) |
| At 30 April 2013 | 104 |
| Charged for the year | 127 |
| Utilised | (99) |
| At 30 April 2014 | 132 |

*The cost of inventories recognised as an expense amounted to £61,789,000 (2013: £61,760,000, 2012: £76,072,000, 2011: £69,082,000).*

*Included within commercial vehicles is £1,071,000 (2013: £1,609,000, 2012: £956,000, 2011: £591,000, 1 May 2010: £282,000) relating to assets held under hire purchase agreements.*

# Notes to the Group Financial Statements

continued

### 17. Trade and other receivables

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| Trade receivables | 16,378 | 13,010 | 12,471 | 14,372 | 13,965 |
| Less: provision for impairment of receivables | (349) | (172) | (81) | (77) | (222) |
| Trade receivables - net | 16,029 | 12,838 | 12,390 | 14,295 | 13,743 |
| Other receivables | 2,636 | 1,465 | 1,107 | 834 | 845 |
| Director loan accounts (see note 27) | - | 1,734 | 771 | 380 | 1,446 |
| Prepayments and accrued income | 9,667 | 6,909 | 6,276 | 5,121 | 4,055 |
| Total trade and other receivables | 28,332 | 22,946 | 20,544 | 20,630 | 20,089 |

*See note 26 on credit risk of trade receivables, which explains how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.*

**See below for the movements in the provision for impairment:**

| | Group £'000 |
|---|---|
| At 1 May 2010 | 222 |
| Charged for the year | 92 |
| Utilised | (237) |
| At 30 April 2011 | 77 |
| Charged for the year | 62 |
| Utilised | (58) |
| At 30 April 2012 | 81 |
| Charged for the year | 176 |
| Utilised | (85) |
| At 30 April 2013 | 172 |
| Charged for the year | 331 |
| Utilised | (154) |
| At 30 April 2014 | 349 |

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large, unrelated and blue chip. Due to this, management believe there is no further credit risk provision required in excess of normal provision for doubtful receivables. The average credit period taken on sale of goods or services is 25 days (2013: 24 days, 2012: 22 days, 2011: 26 days, 1 May 2010: 30 days).

An impairment review has been undertaken at the balance sheet date to assess whether the carrying amount of financial assets is deemed recoverable. The primary credit risk relates to customers which have amounts due outside of their credit period. A provision for impairment is made when there is objective evidence of impairment which is usually indicated by a delay in the expected cash flows or non-payment from customers.

# Notes to the Group Financial Statements
continued

### 17. Trade and other receivables (continued)

**The ageing analysis of trade receivables was as follows:**

| | Neither past due nor impaired | Past due but not impaired | | |
|---|---|---|---|---|
| | £'000 | 30-60 days £'000 | 60-90 days £'000 | > 90 days £'000 |
| **30 April 2014** | **15,032** | **455** | **190** | **352** |
| 30 April 2013 | 12,242 | 349 | 122 | 125 |
| 30 April 2012 | 11,779 | 374 | 113 | 124 |
| 30 April 2011 | 13,607 | 410 | 109 | 169 |
| 1 May 2010 | 12,994 | 470 | 74 | 205 |

### 18. Cash and cash equivalents

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| **Cash and cash equivalents** | **5,360** | 2,849 | 2,231 | 156 | 320 |
| **Bank overdraft** | **(85)** | (569) | (81) | (5,641) | (8,266) |
| **Total cash and cash equivalents** | **5,275** | 2,280 | 2,150 | (5,485) | (7,946) |

### 19. Trade and other payables

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| **Trade creditors** | **35,876** | 24,346 | 27,907 | 33,085 | 26,114 |
| **Other taxes and social security** | **4,915** | 5,233 | 4,422 | 3,061 | 4,775 |
| **Other creditors** | **3,265** | 2,728 | 2,892 | 1,879 | 1,626 |
| **Accruals and deferred income** | **7,668** | 5,006 | 3,520 | 4,222 | 3,423 |
| **Total trade and other payables** | **51,724** | 37,313 | 38,741 | 42,247 | 35,938 |

# Notes to the Group Financial Statements

continued

## 20. Financial liabilities - Borrowings

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| **NON-CURRENT:** | | | | | |
| Bank loans | **(216)** | (32) | - | - | - |
| Obligations under finance leases or hire purchase agreements | **(4,044)** | (2,061) | (625) | (963) | (1,994) |
| | **(4,260)** | (2,093) | (625) | (963) | (1,994) |
| **CURRENT:** | | | | | |
| Bank overdrafts | **(85)** | (569) | (81) | (5,641) | (8,266) |
| Bank loans | **(177)** | (169) | - | - | (1,800) |
| Stocking loans | **(2,686)** | (978) | (474) | - | - |
| Obligations under finance leases or hire purchase agreements | **(2,012)** | (1,723) | (1,987) | (1,697) | (1,979) |
| | **(4,960)** | (3,439) | (2,542) | (7,338) | (12,045) |
| Total external borrowings | **(9,220)** | (5,532) | (3,167) | (8,301) | (14,039) |
| Add cash and cash equivalents | **5,360** | 2,849 | 2,231 | 156 | 320 |
| **Net external debt** | **(3,860)** | (2,683) | (936) | (8,145) | (13,719) |
| Net former parent company balance | **(14,181)** | (2,335) | (3,480) | 3,151 | 2,826 |
| **Net debt** | **(18,041)** | (5,018) | (4,416) | (4,994) | (10,893) |

**Current financial liabilities:**

Prior to the reorganisation, the former parent company arranged a proportion of external borrowings used to finance the group. Balances were lent to and from the former parent company to fund the group activities. Therefore the amounts owed to and from the former parent company have been disclosed in financial liabilities.

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| Amounts owed to former parent company | **(15,267)** | (7,971) | (9,284) | (8,583) | (2,556) |
| Amounts owed by former parent company | **1,086** | 5,636 | 5,804 | 11,734 | 5,382 |
| Net former parent company balance | **(14,181)** | (2,335) | (3,480) | 3,151 | 2,826 |
| Current external financial liabilities | **(4,960)** | (3,439) | (2,542) | 7,338 | 12,845 |
| **Current financial liabilities** | **(19,141)** | (5,774) | (6,022) | (4,187) | (9,219) |

# Notes to the Group Financial Statements

continued

## 20. Financial liabilities - Borrowings (continued)

**The maturity analysis of the bank loans at 30 April is as follows:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| In one year or less | **177** | 169 | - | - | 1,800 |
| Between one and five years | **216** | 32 | - | - | - |
| After five years | **-** | - | - | - | - |
| **Total bank loans** | **393** | 201 | - | - | 1,800 |

**The amounts which are repayable under hire purchase or finance lease instalments are shown below:**

| | **2014 Group £'000** | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| **FIXED RATE LEASES:** | | | | | |
| **MINIMUM LEASE PAYMENTS:** | | | | | |
| In one year or less | **1,451** | 978 | 891 | 1,618 | 2,094 |
| Between one and five years | **2,676** | 1,105 | 317 | 875 | 2,082 |
| After five years | **-** | - | - | - | - |
| | **4,127** | 2,083 | 1,208 | 2,493 | 4,176 |
| **INTEREST:** | | | | | |
| In one year or less | **(192)** | (84) | (56) | (219) | (327) |
| Between one and five years | **(182)** | (83) | (13) | (109) | (247) |
| After five years | **-** | - | - | - | - |
| | **(374)** | (167) | (69) | (328) | (574) |
| **PRINCIPAL OF FIXED RATE LEASES:** | | | | | |
| In one year or less | **1,259** | 894 | 835 | 1,399 | 1,767 |
| Between one and five years | **2,494** | 1,022 | 304 | 766 | 1,835 |
| After five years | **-** | - | - | - | - |
| | **3,753** | 1,916 | 1,139 | 2,165 | 3,602 |
| **VARIABLE RATE LEASES:** | | | | | |
| In one year or less | **753** | 829 | 1,151 | 297 | 212 |
| Between one and five years | **1,550** | 1,039 | 322 | 197 | 159 |
| After five years | **-** | - | - | - | - |
| | **2,303** | 1,868 | 1,473 | 494 | 371 |
| **Total** | **6,056** | 3,784 | 2,612 | 2,659 | 3,973 |

It is the Group's policy to acquire certain of its property, plant and equipment and inventories under finance leases or hire purchase agreements. The average contract term is 3.5 (2013: 3.0, 2012: 3.2, 2011: 3.3, 1 May 2010: 3.4) years. At 30 April 2014 £5,998,000 (2013: £3,712,000, 2012: £2,612,000, 2011: £2,659,000, 1 May 2010, £3,973,000) of the Group total of such obligations are denominated in sterling and the remainder is denominated in Euros. The interest on the variable rate leases is based on a margin above Bank Base Rate, FHBR or LIBOR. The Group's obligations under finance leases are secured by the lessor's charge over the assets.

# Notes to the Group Financial Statements

continued

## 21. Provisions

| | Onerous contracts | Uninsured losses | Dilapidations | Total |
|---|---|---|---|---|
| At 1 May 2010 | 161 | 21 | 717 | 899 |
| Utilised | (55) | (60) | (68) | (183) |
| Charged in period | - | 389 | 125 | 514 |
| At 30 April 2011 | 106 | 350 | 774 | 1,230 |
| Utilised | (55) | (42) | (595) | (692) |
| Charged in period | - | 42 | 338 | 380 |
| At 30 April 2012 | 51 | 350 | 517 | 918 |
| Utilised | (51) | (97) | (160) | (308) |
| Charged in period | - | 97 | 348 | 445 |
| At 30 April 2013 | - | 350 | 705 | 1,055 |
| Acquisitions | 60 | - | - | 60 |
| Utilised | (79) | (155) | (264) | (498) |
| Charged in period | 331 | (195) | 93 | 229 |
| At 30 April 2014 | 312 | - | 534 | 846 |

**Provisions have been analysed between current and non-current as follows:**

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| Current | 147 | 547 | 428 | 636 | 130 |
| Non-current | 699 | 508 | 490 | 593 | 769 |
| | 846 | 1,055 | 918 | 1,230 | 899 |

**Onerous contracts**

As part of the consideration for the acquisition of the German businesses in 2008 and 2013, the Group took on contracts for some staff, vehicles and premises that were surplus to the immediate requirements of the business. The onerous element of those contracts has been recognised within the fair value of assets and liabilities acquired. The provisions were all fully utilised by 30 April 2014.

Following a reorganisation of the commercial vehicles business in the year ended 30 April 2013, which included the closure of a depot, the Group has been unsuccessful in its efforts to sub-let the closed premises. The Directors have therefore decided to make a provision in the current year for the rent that will be payable until the expiry of the lease in September 2018.

**Uninsured losses**

The uninsured losses provision is in respect of the cost of claims (generally for commercial vehicles and employment related) which are either not insured externally or fall below the excess on the Group's insurance policies.

In the year ended 30 April 2011 a provision was put in place for legal costs expected to be incurred on behalf of the then parent entity. Any remaining liability has now been indemnified by the shareholders of the former parent company and consequently the balance of the provision has been released in the year.

**Dilapidations**

Provisions are established over the life of leases to cover remedial work necessary at termination under the terms of those leases. Two key sites have leases that expire 23 and 14 years from the balance sheet date. All other leases expire in 10 years or less.

# Notes to the Group Financial Statements

continued

## 22. Share capital

| | 2014 Company £'000 | 2013 Company £'000 | 2012 Company £'000 | 2011 Company £'000 | 1 May 2010 Company £'000 |
|---|---|---|---|---|---|
| **ALLOTTED, CALLED UP AND FULLY PAID:** | | | | | |
| **3,852 'A' ordinary shares of £1 each** | **-** | 4 | 4 | 4 | 4 |
| **3,851 'B' ordinary shares of £1 each** | **-** | 4 | 4 | 4 | 4 |
| **100,000,000 ordinary shares of 0.05p each** | **50** | - | - | - | - |
| | **50** | 8 | 8 | 8 | 8 |

On 30 April 2014 the following transactions occurred:

a) The 3,852 'A' ordinary and 3,851 'B' ordinary shares of £1 each were re-designated as 15,406,000 ordinary shares of 0.05p each.

b) 83,794,000 ordinary shares of 0.05p each were allotted to the then parent company for cash consideration of £42,000.

c) 800,000 ordinary shares of 0.05p each were allotted in exchange for the minority shareholding in Clipper Logistics GmbH (see note 28). The fair value of the shares issued was estimated at £800,000 and consequently £800,000 was credited to other reserves.

## 23. Merger reserve

To reflect the group reorganisation a merger reserve with a balance of £18,168,000 has been included in the Group Statement of Financial Position at 1 May 2010.

In the year ended 30 April 2014 a charge of £12,162,000 was made to the reserve to reflect the acquisition of the fellow subsidiaries from Clipper Group Holdings Ltd as part of the group reorganisation.

## 24. Commitments and contingencies

**Operating lease commitments – Land and buildings:**

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| **Less than one year** | **9,660** | 9,137 | 7,445 | 7,684 | 6,162 |
| **Between one and five years** | **35,952** | 30,863 | 18,436 | 19,664 | 17,295 |
| **More than five years** | **57,816** | 61,251 | 15,309 | 18,665 | 14,960 |
| **Total minimum lease payments** | **103,428** | 101,251 | 41,190 | 46,013 | 38,417 |

**Operating lease commitments – Plant and machinery:**

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| **Less than one year** | **2,615** | 3,512 | 3,446 | 3,732 | 2,146 |
| **Between one and five years** | **3,750** | 3,479 | 5,089 | 4,652 | 1,707 |
| **More than five years** | **293** | 113 | 71 | - | - |
| **Total minimum lease payments** | **6,658** | 7,104 | 8,606 | 8,384 | 3,853 |

# Notes to the Group Financial Statements

continued

## 25. Capital commitments

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| Authorised and contracted for | 295 | 209 | - | - | - |
| Authorised, but not contracted for | - | - | 657 | - | - |
| | 295 | 209 | 657 | - | - |

## 26. Financial instruments and financial risk management objectives and policies

In accordance with IAS 39 (Financial Instruments: Recognition and Measurement) the Group has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements. The Group did not identify any such derivatives.

The Group is exposed to a number of different market risks in the normal course of business including credit, interest rate and foreign currency risks.

### Credit risk

Credit risk predominantly arises from trade receivables and cash and cash equivalents. The Group has a customer credit policy in place and the exposure to credit risk is monitored on an ongoing basis. External credit ratings are generally obtained for customers; Group policy is to assess the credit quality of each customer before accepting any terms of trade.

Internal procedures take into account the customers' financial position as well as their reputation within the industry and past payment experience. Cash and cash equivalents and derivative financial instruments are held with AAA or AA rated banks. Financial instruments classified as fair value through profit and loss and available for sale are all publicly traded on the UK London Stock Exchange. Given the high credit quality of counterparties with whom the Group has investments, the Directors do not expect any counterparty to fail to meet its obligations.

At 30 April 2014 there were no significant concentrations of credit risk (2013: £nil, 2012: £nil, 2011: £nil, 1 May 2010: £nil). The Group's maximum exposure to credit risk, gross of any collateral held, relating to its financial assets is equivalent to their carrying value. All financial assets have a fair value which is equal to their carrying value. The Group did not have any financial instruments that would mitigate the credit exposure arising from the financial assets designated at fair value through profit or loss in either the current or the preceding financial year.

### Interest rate risk

The Group adopts a policy of ensuring that there is an appropriate mix of fixed and floating rates in managing its exposure to changes in interest rates on borrowings. Interest rate swaps are entered into, where necessary, to achieve this appropriate mix.

### Interest rate sensitivity

The Group's borrowings are largely denominated in Pounds Sterling and the Group is therefore exposed to a change in the relevant interest rate. With all other variables held constant, the impact of a reasonably possible increase in interest rates of 50 basis points on that portion of borrowings affected, would be to reduce the Group's profit before tax by £23,000 (2013: £15,000, 2012: £7,000, 2011: £30,000, 1 May 2010: £52,000).

### Liquidity risk

Management closely monitors available bank and other credit facilities in comparison to the Group's outstanding commitments on a regular basis to ensure that the Group has sufficient funds to meet the obligations of the Group as they fall due.

The Board receives regular cash forecasts which estimate the cash inflows and outflows over the next 24-36 months, so that management can ensure that sufficient financing can be arranged as it is required. The Group would normally expect that sufficient cash is generated in the operating cycle to meet the contractual cash flows as disclosed above through effective cash management.

### Foreign currency risk

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currencies other than Pounds Sterling. The currencies giving rise to this risk are primarily the Euro and US dollar. The volume of transactions denominated in foreign currencies is not significant to the Group.

The exposure to a short-term fluctuation in exchange rates on the investment in foreign subsidiaries is not expected to have a material impact on the results of the Group.

# Notes to the Group Financial Statements
continued

## 26. Financial instruments and financial risk management objectives and policies (continued)

**Capital management**
The Group's main objective when managing capital is to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future. The Group also aims to maximise its capital structure of debt and equity so as to minimise its cost of capital.

The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing ratio on a regular basis and adjusting the level of dividends paid to ordinary shareholders.

The Group considers its capital to include equity and net debt as noted below. Net debt includes short and long-term borrowings (including overdrafts and lease obligations) net of cash and cash equivalents.

The Group has not made any changes to its capital management during the year. The Group has no long-term gearing ratio target. Borrowings are taken out to invest in new sites or depots and are considered as part of that investment appraisal. Key measures monitored by the Group are interest cover and net debt compared to earnings before interest, tax, depreciation and amortisation.

**Estimation of fair values**
The main methods and assumptions used in estimating the fair values of financial instruments are as follows:
- derivatives: forward exchange contracts are marked to market using listed market prices;
- interest-bearing loans and borrowings: fair value is calculated based on discounted expected future principal and interest cash flows; and
- trade and other receivables/payables: the notional amount for trade receivables/payables with a remaining life of less than one year are deemed to reflect their fair value.

**The book and fair values of the Group's financial instruments were as follows:**

| | **2014 Book value £'000** | **2014 Fair value £'000** | 2013 Book value £'000 | 2013 Fair value £'000 |
|---|---|---|---|---|
| **CURRENT FINANCIAL ASSETS** | | | | |
| **Cash and cash equivalents** | **5,360** | **5,360** | 2,849 | 2,849 |
| **Trade and other receivables** | **28,332** | **28,332** | 22,946 | 22,946 |
| **LIABILITIES** | | | | |
| **Bank overdraft** | **(85)** | **(85)** | (569) | (569) |
| **Short term borrowings** | **(19,056)** | **(19,056)** | (5,205) | (5,205) |
| **Trade and other payables** | **(51,724)** | **(51,724)** | (37,313) | (37,313) |
| **Long term borrowings** | **(4,260)** | **(4,103)** | (2,093) | (2,045) |

| | 2012 Book value £'000 | 2012 Fair value £'000 | 2011 Book value £'000 | 2011 Fair value £'000 | 1 May 2010 Book value £'000 | 1 May 2010 Fair value £'000 |
|---|---|---|---|---|---|---|
| **CURRENT FINANCIAL ASSETS** | | | | | | |
| **Cash and cash equivalents** | 2,231 | 2,231 | 156 | 156 | 320 | 320 |
| **Trade and other receivables** | 20,544 | 20,544 | 20,630 | 20,630 | 20,089 | 20,089 |
| **LIABILITIES** | | | | | | |
| **Bank overdraft** | (81) | (81) | (5,641) | (5,641) | (8,266) | (8,266) |
| **Short term borrowings** | (5,941) | (5,941) | 1,454 | 1,454 | (953) | (953) |
| **Trade and other payables** | (38,741) | (38,741) | (42,247) | (42,247) | (35,938) | (35,938) |
| **Long term borrowings** | (625) | (614) | (963) | (890) | (1,994) | (1,925) |

Long-term borrowings are classified as Level 2 (items with significant observable inputs) financial liabilities under IFRS 13. There have been no transfers between Level 1 and Level 2 financial instruments during the period.

# Notes to the Group Financial Statements

continued

### 26. Financial instruments and financial risk management objectives and policies (continued)

**Maturity of financial liabilities:**

| | | Due within one year | Due between one and two years | Due between two and five years | Total |
|---|---|---|---|---|---|
| 1 May 2010 | Fixed | 1,767 | 1,399 | 436 | 3,602 |
| | Floating | 10,278 | 149 | 10 | 10,437 |
| | Total | 12,045 | 1,548 | 446 | 14,039 |
| 30 April 2011 | Fixed | 1,399 | 620 | 146 | 2,165 |
| | Floating | 5,939 | 158 | 39 | 6,136 |
| | Total | 7,338 | 778 | 185 | 8,301 |
| 30 April 2012 | Fixed | 836 | 269 | 34 | 1,139 |
| | Floating | 5,186 | 211 | 111 | 5,508 |
| | Total | 6,022 | 480 | 145 | 6,647 |
| 30 April 2013 | Fixed | 1,063 | 550 | 503 | 2,116 |
| | Floating | 4,711 | 361 | 679 | 5,751 |
| | Total | 5,774 | 911 | 1,182 | 7,867 |
| 30 April 2014 | Fixed | 1,436 | 1,242 | 1,469 | 4,147 |
| | Floating | 17,705 | 978 | 571 | 19,254 |
| | Total | 19,141 | 2,220 | 2,040 | 23,401 |

# Notes to the Group Financial Statements

continued

### 27. Related party disclosures

At the previous year end, Steve Parkin and Sean Fahey, both Directors, jointly had an unpaid loan account in favour of the Company. The loan was not interest bearing and was repaid to the Company in April 2014.

Additionally Steve Parkin had an individual loan account in favour of the Company. The loan was not interest bearing and was repaid to the Company in April 2014.

At the previous year end, Tony Mannix, a Director, had an unpaid loan account in favour of the Company. The loan was not interest bearing and was repaid to the Company in April 2014.

At the previous year end, Mike Badrock, a Non-Executive Director, had an unpaid loan account in favour of the Company. The loan was not interest bearing and was repaid to the Company in April 2014.

At the previous year end the Company had advanced a loan to Harrogate Road Restaurants Ltd, a related party of the Group as it shares certain shareholders and directors in common with the Company. The loan was not interest bearing and was repaid to the Company in April 2014.

The Group rented an aircraft from South Acre Aviation Ltd, a company owned by Steve Parkin. Charges are on an arm's length basis and the Group had advanced a loan to South Acre Aviation Ltd. The loan was repaid to the Company in April 2014 and bore interest at 3.25% per annum. The rental agreement terminated on 30 May 2014.

During the year the Company leased racehorses which are beneficially owned by Steve Parkin. These horses ran in the Company name and in Company colours. Under the terms of the lease, the Company is responsible for all expenditure in connection with the horses but can retain any monies received for a win or placing up to the value of the costs incurred for that horse. The rights and liabilities arising under this arrangement ceased on 31 May 2014.

Roydhouse Properties Ltd is the landlord of two of the Company's leasehold properties and is classed as a related party due to the company having common directors with Clipper Logistics plc.

Guiseley Association Football Club shares a common director with Clipper Logistics plc.

Balances due to and from the former parent company can be found in note 20. Interest receivable and payable from the former parent company can be found in notes 9 and 10.

The dividends paid to the former parent company can be found in note 8.

Key management compensation is disclosed in note 5.

# Notes to the Group Financial Statements
continued

## 27. Related party disclosures (continued)

| | 2014 Group £'000 | 2013 Group £'000 | 2012 Group £'000 | 2011 Group £'000 | 1 May 2010 Group £'000 |
|---|---|---|---|---|---|
| **STATEMENT OF FINANCIAL POSITION:** | | | | | |
| Loan to SN Parkin & SE Fahey – closing | - | 83 | 46 | 15 | 760 |
| Loan to SN Parkin & SE Fahey – maximum balance in the year | 83 | 83 | 46 | 911 | 760 |
| Loan to SN Parkin – closing | - | 1,536 | 713 | 353 | 637 |
| Loan to SN Parkin – maximum balance in the year | 1,653 | 1,536 | 913 | 737 | 645 |
| Loan to A G Mannix – closing | - | 12 | 12 | 12 | 41 |
| Loan to A G Mannix – maximum balance in the year | 12 | 12 | 12 | 41 | 41 |
| Loan to M D Badrock – closing | - | 103 | - | - | - |
| Loan to M D Badrock – maximum balance in the year | 496 | 103 | - | - | - |
| Loan to South Acre Aviation Ltd – interest bearing | - | 42 | 42 | 42 | - |
| Loan to Harrogate Road Restaurants Ltd – closing | - | 54 | - | - | - |
| **INCOME STATEMENT:** | | | | | |
| South Acre Aviation Ltd – aircraft rental costs | 69 | 52 | 20 | - | - |
| Horse Costs | 414 | 83 | 211 | 174 | 218 |
| Roydhouse Properties Ltd – rent payable | 819 | 781 | - | - | - |
| Guiseley Association Football Club – advertising and sponsorship | 275 | 210 | 280 | 140 | 87 |

# Notes to the Group Financial Statements

continued

## 28. Business combinations

**a) R. Geist Spedition GmbH & Co. KG**
On 1 October 2013, the Group acquired 100% of the voting shares of R. Geist Spedition GmbH & Co. KG ("Geist"), an unlisted company based in Germany and specialising in value-added logistics services, in exchange for cash consideration.

The Group acquired Geist to increase its presence in mainland Europe and therefore assist the Group's UK customers with their expansion plans.

**Purchase consideration:**

| | £'000 |
|---|---|
| Cash paid | 224 |
| Total consideration | 224 |
| Analysis of cash flows on acquisition:<br>Net cash acquired with the subsidiary<br>(included in cash flows from investing activities) | (160) |
| Net cash flow on acquisition | (64) |

**Acquisition:**

| | Fair value recognised on acquisition £'000 |
|---|---|
| ASSETS | |
| Property, plant and equipment | 127 |
| Cash and cash equivalents | 160 |
| Inventories | 49 |
| Trade receivables | 841 |
| Other receivables | 48 |
| LIABILITIES | |
| Trade payables | 418 |
| Other payables | 475 |
| Bank loans | 317 |
| Current tax liability | 24 |
| Deferred tax liability | - |
| Total identifiable net assets (liabilities) at fair value | (9) |
| Goodwill arising on acquisition | 233 |
| Total consideration | 224 |

# Notes to the Group Financial Statements

continued

## 28. Business combinations (continued)

**a) R. Geist Spedition GmbH & Co. KG (continued)**

The fair value of the trade receivables amounts to £841,000. The gross amount of trade receivables is £878,000. An impairment provision of £37,000 has been made.

The goodwill of £233,000 comprises the value of expected synergies arising from the acquisition and a customer list, which is not separately recognised. Goodwill is allocated entirely to the value-added logistics services segment.

Due to the contractual terms imposed on acquisition, the customer list is not separable. Therefore, it does not meet the criteria for recognition as an intangible asset under IAS 38. None of the goodwill recognised is expected to be deductible for income tax purposes.

From the date of acquisition, Geist has contributed £4,190,000 of revenue and £209,000 to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been £204,193,000 and the profit before tax from continuing operations for the Group would have been £3,986,000.

With effect from 1 March 2014 the Geist business was merged with Clipper Logistics GmbH. The combined entity now trades as Clipper Geist Logistics GmbH & Co. KG.

**b) Clipper Logistics GmbH**

On 16 April 2014, the Company acquired, at book value, the former parent company's 75% shareholding in Clipper Logistics GmbH.

On 30 April 2014 the Company acquired the remaining 25% from the minority shareholders, in exchange for the allotment of 800,000 ordinary shares of 0.05p each. As this is an increase in the Company's ownership interest that does not result in a change of control, this is accounted for as an equity transaction through other reserves.

| Acquisition of minority shareholding in Clipper Logistics GmbH | £'000 |
|---|---|
| Fair value of shares issued | 800 |
| Book value of non-controlling interests acquired | (33) |
| Difference accounted for through equity | 767 |

**c) Stormont Truck and Van Ltd**

On 10 August 2013, Northern Commercials (Mirfield) Ltd paid £1,958,000 to Clipper Group Holdings Ltd to acquire 100% of the issued share capital of Stormont Truck and Van Ltd. The trade and assets of Stormont Truck and Van Ltd were subsequently hived up into Northern Commercials (Mirfield) Ltd.

# Notes to the Group Financial Statements
continued

## 29. First time adoption of IFRS

Although as explained in more detail in note 2.1, the Group's deemed date of transition to IFRS is 1 May 2010, these Financial Statements are the first prepared by the Group under IFRS. Note 2.1 also explains that while comparative figures have been prepared as though the Group existed, the Group did not legally form until 16 April 2014. The reconciliations required under paragraph 24 of IFRS 1 in the first financial statements of an entity adopting IFRS have therefore not been produced, on the grounds that there are no previous UK GAAP financial statements for the Group as currently constituted.

## 30. Post balance sheet events

**Ultimate parent company**

At 30 April 2014, the Company's ultimate parent company was Clipper Group Holdings Ltd. Following the partial sale in the Initial Public Offering and admission to trading on the London Stock Exchange on 4 June 2014, Clipper Group Holdings Ltd ceased to be the ultimate parent company.

**Bank borrowings**

On 2 May 2014, the existing bank facilities of Clipper Group Holdings Ltd were novated to the Company. Upon Admission on 4 June 2014, the Group was granted replacement bank facilities totalling £30,000,000 by Santander Corporate UK and settled all amounts then outstanding by members of the Group to Clipper Group Holdings Ltd.

# Company Financial Statements for the year ended 30 April 2014

# Statement of Directors' Responsibilities in respect of the Annual Report and the Company Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable laws and regulations.

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

In preparing those Financial Statements the Directors are required to:

- Select suitable accounting policies and apply them consistently,
- Make judgements and estimates that are reasonable and prudent
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements, and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 Auditor's Report - Company

## Independent auditor's report to the members of Clipper Logistics plc

**We have audited the Company Financial Statements of Clipper Logistics plc for the year ended 30 April 2014 which comprise the Company Balance Sheet and the related notes A to Q. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).**

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

### Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 128, the Directors are responsible for the preparation of the Company 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 Company 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 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 the Financial Statements

In our opinion the Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 30 April 2014;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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 Company Financial Statements.

### Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements and the part of the Directors' Remuneration Report to be audited 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.

### Other matters

We have reported separately on the Group Financial Statements of Clipper Logistics plc for the year ended 30 April 2014.

The risks disclosed in the Group audit report in respect of revenue recognition, and the classification of certain head office costs as discontinuing costs, also apply to the Company Financial Statements.

**Stuart Watson (Senior statutory auditor)**
**for and on behalf of Ernst & Young LLP, Statutory Auditor**

**Leeds**
**28 August 2014**

# Company Balance Sheet

## At 30 April

| | Note | 2014 £'000 | 2013 £'000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Tangible assets | B | 12,026 | 11,905 |
| Investment in subsidiaries | C | 11,286 | 282 |
| Intangible assets | D | 5,778 | 6,193 |
| Total fixed assets | | 29,090 | 18,380 |
| **CURRENT ASSETS** | | | |
| Stock | E | 543 | 295 |
| Debtors | F | 16,743 | 14,566 |
| Cash at bank and in hand | | 3,302 | 14 |
| Total current assets | | 20,588 | 14,875 |
| Creditors: amounts falling due within one year | G | 42,240 | 18,271 |
| Net current liabilities | | (21,652) | (3,396) |
| Creditors: amounts falling due after more than one year | H | 2,438 | 9,086 |
| Provisions for liabilities and charges | I | 902 | 1,101 |
| **NET ASSETS** | | 4,098 | 4,797 |
| **EQUITY SHAREHOLDERS' FUNDS** | | | |
| Share capital | K | 50 | 8 |
| Share premium | L | 48 | 48 |
| Other reserve | L | 851 | 51 |
| Profit and loss account | M | 3,149 | 4,690 |
| **TOTAL EQUITY** | | 4,098 | 4,797 |

Approved by the Board on 28 August 2014 and signed on its behalf by:

D A Hodkin – Chief Financial Officer

# Notes to the Company Balance Sheet

## A. Accounting policies

**The Financial Statements have been prepared in accordance with the Companies Act 2006 and with applicable accounting standards in the United Kingdom.**

### Basis of preparation

The Company Financial Statements for the year ended 30 April 2014 were authorised for issue by the Board of Directors on 28 August 2014 and the Company Statement of Financial Position was signed on the Board's behalf by David Hodkin.

A summary of the principal Company accounting policies is set out below. These have been applied on a consistent basis unless otherwise indicated.

Clipper Logistics plc (the "Company"), a public limited company incorporated and domiciled in the United Kingdom, acts as parent undertaking for the Clipper group of companies.

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. The profit after tax for the year was £784,000 (2013: £2,866,000). There were no other recognised gains or losses in either year. Audit fees are disclosed in note 6 to the Group Financial Statements.

The Company has taken advantage of the exemptions in FRS 1 from preparing cash flows as the Group's consolidated Financial Statements, in which the Company is included, provide equivalent disclosures. The Company has taken advantage of the exemption in FRS 8 not to disclose related party transactions with Group companies.

### Basis of accounting

The Financial Statements are prepared under the historical cost convention.

The Financial Statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the Financial Statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future.

Further information in relation to the Group's business activities, together with the factors likely to affect its future development, performance and position is set out in the Strategic Report section of this report on pages 4 to 29.

Note 26 to the Group Financial Statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposure to foreign exchange, credit and interest rate risk.

The Company Balance Sheet at 30 April 2014 shows net current liabilities of £21,652,000 (2013: £3,396,000). On 2 May 2014 the bank facilities granted by Santander UK plc to Clipper Group Holdings Ltd were novated to the Company. On 4 June 2014 these facilities were restructured and extended. Following the restructuring, in addition to a five year term loan of £12,500,000 amortising quarterly, the Group has access to a five year, non-amortising, revolving credit facility of £12,504,000.

The Directors have assessed the future funding requirements of the Group and the Company and compared them to the bank facilities which are now available. The assessment included a detailed review of financial and cash flow forecasts for at least the 12 month period from the date of signing the Annual Report. The Directors considered a range of potential scenarios within the key markets the Group serves and how these might impact on the Group's cash flow. The Directors also considered what mitigating actions the Group could take to limit any adverse consequences. The Group's forecasts and projections show that the Group should be able to operate without the need for any increase in borrowing facilities.

Having undertaken this work, the Directors are of the opinion that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

### Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual value, on a straight line or reducing balance basis over their estimated economic lives. The estimated economic lives used for the separate categories of fixed assets for this purpose are:

- Leasehold property - 5 to 15 years
- Plant and machinery - 2 to 10 years
- Motor vehicles - 4 to 8 years

# Notes to the Company Balance Sheet

continued

### Investments in subsidiary undertakings

Fixed asset investments are shown at cost less provision for impairment.

### Purchased goodwill

Goodwill representing the excess of the purchase price compared with the fair value of net assets acquired is capitalised and written off over its estimated useful life of 20 years, unless the Directors consider that a shorter period is more appropriate.

### Lease assets and obligations

Leasing agreements and hire purchase contracts which transfer to the Company substantially all the benefits and risks of ownership of an asset ("finance leases") are treated as if the asset had been purchased outright. Assets held under such agreements are included in fixed assets and the capital element of commitments is shown as obligations under finance leases. Payments under such agreements are treated as consisting of capital and interest elements. The interest element is charged to the profit and loss account over the primary lease period in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

All other leases are treated as operating leases, the costs of which are charged on a straight line basis over the lease term. Lease incentives are recognised over the shorter of the lease term and the date of the next rent review.

### Stocks

Stocks are valued at the lower of cost and net realisable value on a line by line basis. Provision is made for obsolete and slow-moving items.

### Taxation

The charge for taxation is based on the result for the year. Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and laws. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities recognised have not been discounted.

### Pensions

Contributions are made to the personal pension plans of certain employees. The assets of the scheme are held separately from those of the Company. The expenditure is charged to the profit and loss account as incurred.

### Post-retirement benefits

The Company provides no other post-retirement benefits to its employees.

### Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date or at the agreed contractual rate. Transactions in foreign currency are translated at the rate ruling at the date of the transaction. All differences on exchange are taken to the profit and loss account.

### Share based payments

The former parent company issued equity-settled share based payments to certain employees. The fair value at the date of grant of the equity-settled share based payments is expensed on a straight-line basis over the vesting period based on the former parent company's estimate of shares that will eventually vest.

# Notes to the Company Balance Sheet

continued

## B. Tangible fixed assets

| | Leasehold property £'000 | Motor vehicles £'000 | Plant, machinery, fixtures & fittings £'000 | Total £'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 May 2013 | 2,088 | 1,294 | 21,541 | 24,923 |
| Additions | 503 | 145 | 2,279 | 2,927 |
| Intra-group transfers | 97 | - | 11 | 108 |
| Disposals | (58) | (115) | (154) | (327) |
| At 30 April 2014 | 2,630 | 1,324 | 23,677 | 27,631 |
| **ACCUMULATED DEPRECIATION** | | | | |
| At 1 May 2013 | 795 | 1,014 | 11,209 | 13,018 |
| Charge for the year | 162 | 130 | 2,621 | 2,913 |
| Disposals | (58) | (114) | (154) | (326) |
| At 30 April 2014 | 899 | 1,030 | 13,676 | 15,605 |
| **NET BOOK VALUE** | | | | |
| At 30 April 2013 | 1,293 | 280 | 10,332 | 11,905 |
| At 30 April 2014 | 1,731 | 294 | 10,001 | 12,026 |

*Included within tangible fixed assets are amounts held under finance lease contracts. At 30 April 2014 the net book value of these assets was £3,560,000 (30 April 2013: £1,120,000).The depreciation charged to the accounts in the year in respect of such assets amounted to £1,612,000 (2013: £618,000).*

# Notes to the Company Balance Sheet
continued

## C. Investment in subsidiary undertakings

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **COST** | | |
| At 1 May | 497 | 497 |
| Additions | 11,004 | - |
| At 30 April | 11,501 | 497 |
| **PROVISION FOR IMPAIRMENT** | | |
| At 1 May 2013 and 30 April 2014 | 215 | 215 |
| **NET BOOK VALUE** | | |
| At 30 April 2014 | 11,286 | 282 |

On 16 April 2014 the Company acquired from Clipper Group Holdings Ltd, at book value, its entire investment in the other members of the Group, which included 75% of Clipper Geist Logistics GmbH & Co. KG (see note 2.1 to the Group Financial Statements). On 30 April 2014 the Company acquired the remaining 25% of Clipper Geist Logistics GmbH & Co. KG in exchange for the issue of 800,000 ordinary shares (see note 28 to the Group Financial Statements).

**Subsidiary undertakings**

Except where indicated, the subsidiary undertakings are incorporated and operate in Great Britain, registered in England and Wales and the Company or Group owns 100% of the issued ordinary share capital. The subsidiary undertakings of the Company are as follows:

| Company | Nature of business during the year |
|---|---|
| Clipper Geist Logistics GmbH & Co. KG (Germany) | Contract distribution & warehousing |
| Northern Commercials (Mirfield) Ltd | Distribution of commercial vehicles |
| Stormont Truck and Van Ltd | Distribution of commercial vehicles |
| Genesis Specialised Product Packing Ltd | On-line retail and distribution |
| Gagewell Transport Ltd | Dormant |
| Clipper e-commerce Ltd | Dormant |
| Clipper Logistics (Processing) Ltd | Dormant |
| Clipper Logistics (Warehousing) Ltd | Dormant |
| Clipper Secure Logistics Ltd | Dormant |
| DTS Logistics Ltd | Dormant |
| Guardex Security Services Ltd | Dormant |
| Transference Technology Ltd (90% owned)* | Dormant |
| Northern Commercial Trailers (Mirfield) Ltd* | Dormant |

** shareholding held indirectly*

# Notes to the Company Balance Sheet

continued

## D. Intangible assets

| | Goodwill £'000 | Contracts and Licenses £'000 | Total £'000 |
|---|---|---|---|
| COST: | | | |
| At 1 May 2013 and 30 April 2014 | 8,312 | 723 | 9,035 |
| ACCUMULATED AMORTISATION: At 1 May 2013 | 2,119 | 723 | 2,842 |
| Charge for the year | 415 | - | 415 |
| At 30 April 2014 | 2,534 | 723 | 3,257 |
| NET BOOK VALUE: | | | |
| At 30 April 2013 | 6,193 | - | 6,193 |
| At 30 April 2014 | 5,778 | - | 5,778 |

## E. Stocks

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Component parts and consumable stores | 543 | 295 |
| Total inventories | 543 | 295 |

# Notes to the Company Balance Sheet
continued

## F. Debtors

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Trade debtors | 6,412 | 4,996 |
| Corporation tax | 121 | - |
| Other debtors | 146 | 310 |
| Director loan accounts (see note P) | - | 1,734 |
| Prepayments and accrued income | 8,232 | 5,245 |
| Amounts owed by fellow Group companies | 1,832 | 2,079 |
| Amounts owed by former parent company | - | 202 |
| Total debtors | 16,743 | 14,566 |

## G. Creditors: amounts falling due within one year

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Bank overdrafts | 85 | 357 |
| Bank loans | 86 | 169 |
| Obligations under finance leases or hire purchase agreements | 1,164 | 397 |
| Trade creditors | 13,999 | 9,066 |
| Other taxes and social security | 3,667 | 2,823 |
| Other creditors | 1,021 | 679 |
| Corporation tax payable | - | 486 |
| Accruals and deferred income | 6,600 | 4,257 |
| Amounts owed to fellow Group companies | 351 | 37 |
| Amounts owed to former parent company | 15,267 | - |
| Total creditors: amounts falling due within one year | 42,240 | 18,271 |

## H. Creditors: amounts falling due after more than one year

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Amounts owed to fellow Group companies | - | 283 |
| Amounts owed to former parent company | - | 8,173 |
| Bank loans | 40 | 32 |
| Obligations under finance leases or hire purchase agreements | 2,398 | 598 |
| Total creditors: amounts falling due after more than one year | 2,438 | 9,086 |

*Obligations under finance leases and hire purchase contracts are secured by related assets.*

# Notes to the Company Balance Sheet

continued

## I. Provisions for liabilities and charges

| | Deferred taxation | Other provisions | Total |
|---|---|---|---|
| At 1 May 2013 | 635 | 466 | 1,101 |
| Utilised | - | (89) | (89) |
| (Credited) / charged in period | (204) | 94 | (110) |
| At 30 April 2014 | 431 | 471 | 902 |

**Other provisions**

Provisions are established over the life of leases to cover remedial work necessary at termination under the terms of those leases. Two key sites have leases that expire 23 and 14 years from the balance sheet date. All other leases expire in 10 years or less.

## J. Deferred tax

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Deferred tax liability:<br>Accelerated capital allowances | (444) | (661) |
| Deferred tax asset:<br>Provisions & other timing differences | 13 | 26 |
| Net deferred tax liability | (431) | (635) |

The UK corporation tax rate reduced from 23% to 21% with effect from 1 April 2014. A further reduction to 20% is effective from 1 April 2015. Accordingly, these rates have been applied in the measurement of the Company's deferred tax assets and liabilities as at 30 April 2014.

# Notes to the Company Balance Sheet

continued

## K. Share capital

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| **ALLOTTED, CALLED UP AND FULLY PAID:** | | |
| 3,852 'A' ordinary shares of £1 each | - | 4 |
| 3,851 'B' ordinary shares of £1 each | - | 4 |
| 100,000,000 ordinary shares of 0.05p each | 50 | - |
| | 50 | 8 |

On 30 April 2014 the following transactions occurred:

a) The 3,852 'A' ordinary and 3,851 'B' ordinary shares of £1 each were re-designated as 15,406,000 ordinary shares of 0.05p each.

b) 83,794,000 ordinary shares of 0.05p each were allotted to the then parent company for cash consideration of £42,000

c) 800,000 ordinary shares of 0.05p each were allotted in exchange for the minority shareholding in Clipper Logistics GmbH (see note 28 to the Group Financial Statements). The fair value of the shares issued was estimated at £800,000 and consequently £800,000 was credited to reserves.

## L. Reserves

| | Share premium account £'000 | Other reserve £'000 |
|---|---|---|
| At 1 May 2012 and 30 April 2013 | 48 | 51 |
| Arising on acquisition of minority interest | - | 800 |
| At 30 April 2014 | 48 | 851 |

## M. Profit and loss account

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| At 1 May | 4,690 | 4,587 |
| Profit for the financial year | 784 | 2,866 |
| Dividends | (2,500) | (2,800) |
| Share based payments* | 175 | 37 |
| At 30 April | 3,149 | 4,690 |

**See note 12 to the Group Financial Statements*

# Notes to the Company Balance Sheet

continued

## N. Commitments and contingencies

The Company has annual commitments under non-cancellable operating leases as follows:

**Operating lease commitments – Land and buildings:**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Operating leases which expire: | | |
| - Within one year | 509 | 830 |
| - Between one and five years | 1,905 | 1,141 |
| - More than five years | 4,964 | 5,019 |
| | 7,378 | 6,990 |

**Operating lease commitments – Plant and machinery:**

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Operating leases which expire: | | |
| - Within one year | 582 | 213 |
| - Between one and five years | 1,358 | 2,024 |
| - More than five years | 215 | 96 |
| | 2,155 | 2,333 |

## O. Capital commitments

| | 2014 £'000 | 2013 £'000 |
|---|---|---|
| Authorised and contracted for | 295 | 209 |
| Authorised, but not contracted for | - | - |
| | 295 | 209 |

# Notes to the Company Balance Sheet
continued

## P. Related party disclosures

At the previous year end, 30 April 2013, Steve Parkin and Sean Fahey, both Directors, jointly had an unpaid loan account in favour of the Company in the sum of £83,000. This was the maximum balance outstanding and the loan was not interest bearing. The loan was repaid to the Company in April 2014.

Additionally Steve Parkin had an individual loan account outstanding at 30 April 2013 in the sum of £1,536,000. The maximum balance outstanding in the year ended 30 April 2014 was £1,653,000 and the loan was not interest bearing. The loan was repaid to the Company in April 2014.

At the previous year end, 30 April 2013, Tony Mannix, a Director, had an unpaid loan account in favour of the Company in the sum of £12,000. This was the maximum balance outstanding and the loan was not interest bearing. The loan was repaid to the Company in April 2014.

At the previous year end, 30 April 2013, Mike Badrock, a Non-Executive Director, had an unpaid loan account in favour of the Company in the sum of £103,000. The maximum balance outstanding in the year ended 30 April 2014 was £496,000 and the loan was not interest bearing. The loan was repaid to the Company in April 2014.

Harrogate Road Restaurants Ltd is a related party of the Group as it shares certain shareholders and directors in common with Clipper Logistics plc. At 30 April 2013 the Company had advanced a loan of £54,000 to Harrogate Road Restaurants Ltd. The loan was not interest bearing and was repaid to the Company in April 2014.

The Company rents an aircraft from South Acre Aviation Ltd, a company owned by Steve Parkin. Charges are on an arm's length basis and in the year ended 30 April 2014 amounted to £69,000 (2013: £52,000). At the commencement of this arrangement the Company also advanced a loan in the sum of £42,000 to South Acre Aviation Ltd, which was repaid in April 2014. The loan carried interest at 3.25% per annum. The rental agreement terminated on 30 May 2014.

During the year the Company leased racehorses which are beneficially owned by Steve Parkin. These horses ran in the Company name and in Company colours. Under the terms of the lease, the Company is responsible for all expenditure in connection with the horses but can retain any monies received for a win or placing up to the value of the costs incurred for that horse. The total net costs charged to the income statement in the year ended 30 April 2014 amounted to £414,000 (2013: £83,000). The rights and liabilities arising under this arrangement ceased on 31 May 2014.

Roydhouse Properties Ltd is the landlord of two of the Company's leasehold properties and is classed as a related party due to the company having common directors with Clipper Logistics plc. Rents paid to Roydhouse Properties Ltd in the year ended 30 April 2014 were £819,000 (2013: £781,000).

Guiseley A. F. C. Ltd shares a common director with Clipper Logistics plc. Advertising and sponsorship payable by the Company to Guiseley A. F. C. Ltd in the year ended 30 April 2014 amounted to £275,000 (2013: £210,000). This advertising and sponsorship ceased at the end of the 2013/14 football season.

Balances due to the former parent company can be found in note H.

Interest payable to the former parent company during the year ended 30 April 2014 was £298,000 (2013: £310,000).

The dividends paid to the former parent company can be found in note 8 to the Group Financial Statements.

## Q Post balance sheet events

**Ultimate parent company**

At 30 April 2014, the Company's ultimate parent company was Clipper Group Holdings Ltd. Following the partial sale in the Initial Public Offering and admission to trading on the London Stock Exchange on 4 June 2014, Clipper Group Holdings Ltd ceased to be the ultimate parent company.

**Bank borrowings**

On 2 May 2014, the existing bank facilities of Clipper Group Holdings Ltd were novated to the Company. Upon Admission on 4 June 2014, the Group was granted replacement bank facilities totalling £30,000,000 by Santander Corporate UK and settled all amounts then outstanding by members of the Group to Clipper Group Holdings Ltd.

# Directors, Secretary, registered and head office and advisors

| | |
|---|---|
| Directors: | Steve Parkin, Executive Chairman<br>Tony Mannix, Chief Executive Officer<br>David Hodkin, Chief Financial Officer<br>Sean Fahey, Chief Information Officer<br>Paul Hampden Smith, Senior Independent Non-Executive Director<br>Mike Russell, Independent Non-Executive Director<br>Stephen Robertson, Independent Non-Executive Director<br>Ron Series, Independent Non-Executive Director |
| Company Secretary: | Paul White |
| Registered Office and Head Office of the Company: | Gelderd Road<br>Leeds<br>LS12 6LT |
| Registered number: | 03042024 |
| Sponsor, financial advisor, sole bookrunner and broker: | Numis Securities Ltd<br>The London Stock Exchange Building<br>10 Paternoster Square<br>London<br>EC4M 7LT |
| Legal advisors: | DWF LLP<br>Bridgewater Place<br>Water Lane<br>Leeds<br>LS11 5DY |
| Reporting accountant and auditors: | Ernst & Young LLP<br>1 Bridgewater Place<br>Water Lane<br>Leeds<br>LS11 5QR |
| Registrars: | Equiniti<br>Aspect House<br>Spencer Road<br>Lancing<br>West Sussex<br>BN99 6DA |
| Financial public relations advisors to the Company: | Bell Pottinger<br>Holborn Gate<br>330 High Holborn<br>London<br>WC1V 7QD |

Clipper

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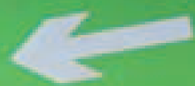

**Clipper Logistics plc**
Gelderd Road
Leeds
LS12 6LT

Tel: 0113 204 2050
Email: info@clippergroup.co.uk
Web: www.clippergroup.co.uk