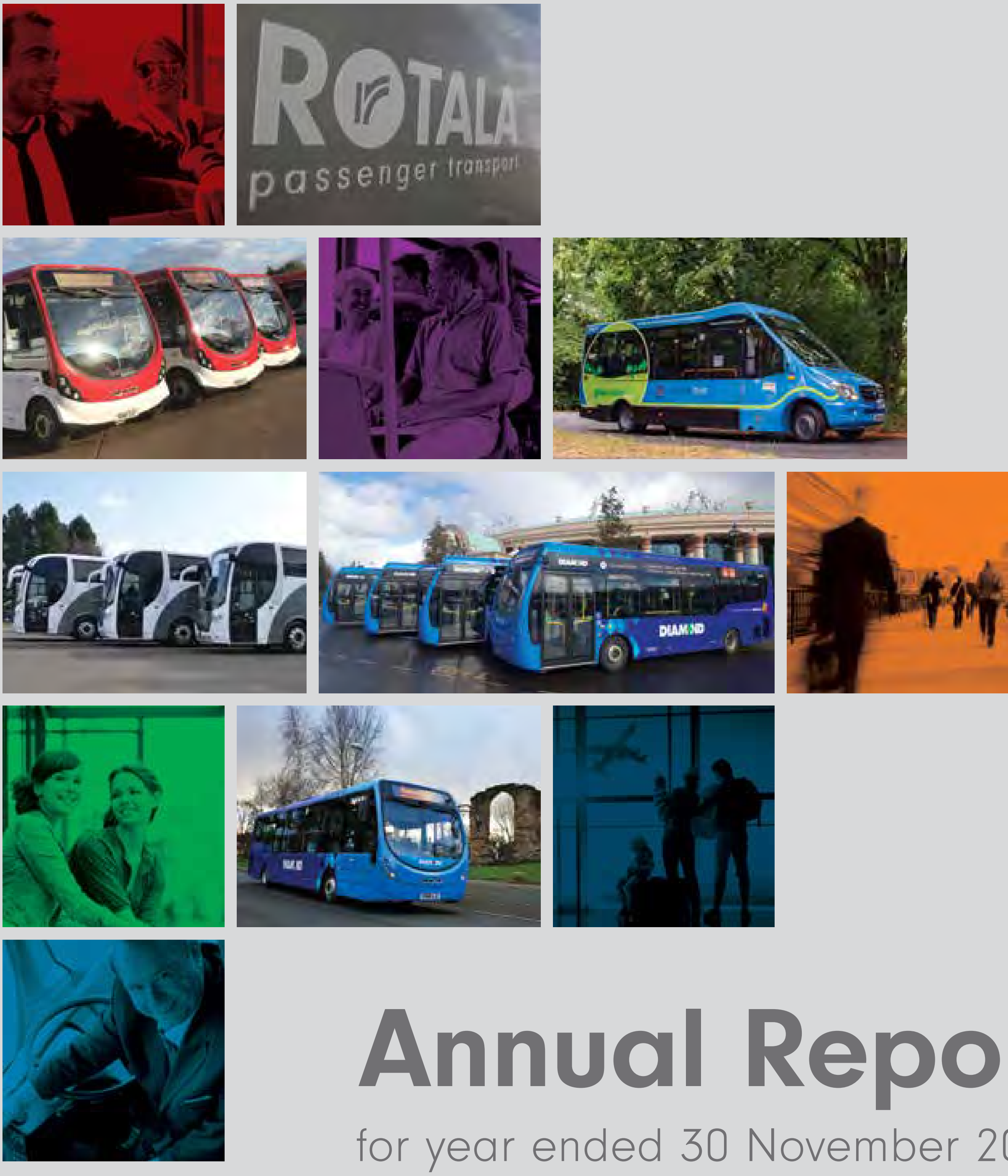



# Annual Report

for year ended 30 November 2018

ROTALA
passenger transport

DIAMOND

DIAMOND NORTH WEST

prestonbus

wings

hallmark

ROTALA
passenger transport

**Rotala Plc**


Hallbridge Way, Tipton Road, Tividale, West Midlands B69 3HW

Telephone: 0121 322 2222

Website: www.rotalaplc.com



Produced by Sue Willdigg, Corporate Design Manager for the Rotala Group

# Contents








# 1 Rotala at a Glance

# Directors, Secretary & Advisers

| | |
|---|---|
| Country of incorporation of parent company | England and Wales |
| Company registration number | 5338907 |
| Legal form | Public Limited Company |
| Directors | John Gunn (Non-Executive – Chairman)<br>Graham Spooner (Non-Executive - Deputy Chairman)<br>Simon Dunn (Chief Executive)<br>Robert Dunn (Executive Director)<br>Graham Peacock (Non-Executive Director)<br>Kim Taylor (Group Finance Director) |
| Registered Office | Rotala Group Headquarters,<br>Cross Quays Business Park,<br>Hallbridge Way,<br>Tividale, Oldbury,<br>West Midlands, B69 3HW.<br>Telephone: 0121 322 2222 |
| Company Secretary | Kim Taylor |
| Nominated Adviser and Broker | Cenkos Securities Plc<br>6.7.8 Tokenhouse Yard<br>London<br>EC2R 7AS |
| Auditor | Mazars LLP<br>Statutory Auditor<br>45 Church Street<br>Birmingham B3 2RT |
| Registrars | Neville Registrars Limited<br>Neville House<br>Steelpark Road<br>Halesowen<br>B62 8HD |
| Bankers | HSBC Bank plc<br>120 Edmund Street<br>Birmingham B3 2QZ |

# Rotala at a Glance

Rotala Plc is an AIM-traded company operating commercial and subsidised bus routes for businesses, local authorities and the general public.

**Our Operating Companies:**

- Diamond Bus Ltd
- Diamond Bus (North West) Ltd
- Hallmark Connections Ltd
- Preston Bus Ltd

## Areas of Operation

# Financial Highlights

A glance at the highlights of the financial year ended 30 November 2018.

## Revenue

£62,400,000*
↑ 19%

| | |
|---|---|
| 2018 | £62,400,000* |
| 2017 | £52,600,000* |
| 2016 | £55,000,000 |
| 2015 | £50,889,000 |

## Profit before Taxation

£4,230,000*
↑ 18%
(before exceptional items)

| | |
|---|---|
| 2018 | £4,230,000* |
| 2017 | £3,590,000* |
| 2016 | £2,680,000 |
| 2015 | £2,460,000 |

## Dividend

2.70p
↑ 8%

| | |
|---|---|
| 2018 | 2.70p |
| 2017 | 2.50p |
| 2016 | 2.30p |
| 2015 | 2.10p |

## Contracted Revenue

£21.6m*
↑ 16%

| | |
|---|---|
| 2018 | £21.6m* |
| 2017 | £18.6m* |
| 2016 | £19.7m |
| 2015 | £15.8m |

## Commercial Revenue

£38.9m*
↑ 25%

| | |
|---|---|
| 2018 | £38.9m* |
| 2017 | £31.2m* |
| 2016 | £32.9m |
| 2015 | £33.2m |

## Charter Revenue

£1.9m
↓ 31%

| | |
|---|---|
| 2018 | £1.9m |
| 2017 | £2.8m |
| 2016 | £2.4m |
| 2015 | £1.9m |

* Continuing business only








# 2 Review of Operations & Statutory Reports

# Chairman's Statement and Review of Operations

## I am pleased to be able to make this report to the shareholders of Rotala Plc for the year ended 30 November 2018.

The company continues to make good progress and its results clearly show the benefit of the acquisition strategy which the board has pursued over the last three years. In that time we have made seven acquisitions.

### Results and review of trading

Revenues for the group (excluding discontinued businesses) for the year ended 30 November 2018 were £62.4 million. This represents an increase of 19% on the revenues of £52.6 million achieved in the previous year. Gross margin decreased very slightly to 20.0% (2017:20.5%). Pre-tax profits before exceptional items rose by 18% to £4.23 million (2017: £3.59 million).

**Contracted Services**

Revenues in Contracted Services rose overall by 16% to £21.6 million (2017: £18.6 million). Contracted Services comprised 35% of group revenues in 2018, unchanged as a proportion of group revenues compared to the previous year. In this division revenues fall under two broad headings: local authority bus contracts and corporate contracts.

Looking first at the local authority bus contracts sector, in 2017 we made acquisitions in both the West Midlands and the North West. We followed that up in the first quarter of 2018 with a further acquisition in the West Midlands of the Central Buses business, as described below in more detail. One of the reasons for making these acquisitions was to put the group in a position to obtain a greater share of the contracted bus markets in these regions by extending our operational reach. In my report last year I outlined the contracts we had subsequently gained in both the West Midlands and the North West in late 2017 and early 2018. We further benefited from an increase in the local bus contracts that we operate for Surrey County Council from our Heathrow depot. These contract gains ensured that revenues from local authority contracts grew strongly in 2018 and now form the greater share of revenues in the Contracted Services division.

In contrast revenues in the corporate contracts sector of this division fell somewhat. This fall resulted from operational management sticking to group policy in tendering for contracts. Our policy is always to ensure that all the work we do contributes to group profitability. We do not chase turnover for its own sake, regardless of the financial implications of taking on such business. At contract renewal a number of airline and other corporate customers in and around Heathrow proved to have unrealistic expectations of the price at which proper services could be delivered. Therefore we, with equanimity, decided rather to give up a number of contracts than carry them out at a rate detrimental to the group's financial health.

Overall then the Contracted Services division maintained its share of group revenues with some very pleasing gains in the key local authority markets which we had targeted in drawing up the acquisition strategy implemented in the last few years.

**Profit before Taxation**

**£4,230,000***

**↑ 18%**

(before exceptional items)

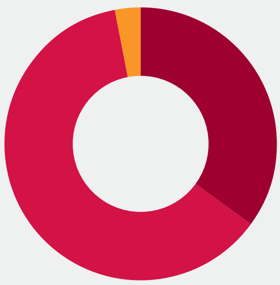
| | |
|---|---|
| 2018 | £4,230,000* |
| 2017 | £3,590,000* |
| 2016 | £2,680,000 |
| 2015 | £2,460,000 |

**Revenue by Stream**

35% Contracted

62% Commercial

3% Charter



* Continuing business only

### Contracted Revenue

**£21.6m***

**↑16%**

| | |
|---|---|
| 2018 | £21.6m* |
| 2017 | £18.6m* |
| 2016 | £19.7m |
| 2015 | £15.8m |

### Commercial Revenue

**£38.9m***

**↑25%**

| | |
|---|---|
| 2018 | £38.9m* |
| 2017 | £31.2m* |
| 2016 | £32.9m |
| 2015 | £33.2m |

### Charter Revenue

**£1.9m**

**↓31%**

| | |
|---|---|
| 2018 | £1.9m |
| 2017 | £2.8m |
| 2016 | £2.4m |
| 2015 | £1.9m |

* Continuing business only

**Commercial Services**

Revenues in the Commercial Services division grew by 25% in 2018 to reach £38.9 million for the year (2017: £31.2 million). Commercial Services comprised 62% of group revenues in 2018, compared to 59% in 2017. The growth in revenue in Commercial Services in 2018 was in part fueled, just as in the Contracted Services division, by the acquisitions we have made in the last two years in the West Midlands and in Manchester. In the West Midlands the acquisition of Hansons in 2017 and Central Buses in 2018 has seen commercial revenues from the region rise to a new peak. Similarly in Manchester the acquisition of the Goodwins bus business in 2017 allied to the establishment of a number of new commercial routes has seen commercial revenues in that conurbation double in the last three years. In order to facilitate expansion in the Manchester market we also in the year purchased for £220,000 the freehold site immediately adjacent to the one which we acquired with the Goodwins acquisition in 2017. We have cleared this new site of its unwanted buildings and thereby doubled the size of the freehold depot we possess in the Eccles area of Manchester. The depot is now comparable in size to our Atherton depot and gives us ample room for expansion in accordance with our plans for the area.

At the very end of the 2017 accounting year we acquired the Hotel Hoppa business which serves routes between the Heathrow airport terminals and local hotels. In its first full year under our ownership this business provided a significant proportion of the increase in revenues in the Commercial Services division. Immediately after its acquisition we completely re-equipped the business with our standard Ticketer ticket machines. These possess a contactless payment feature which was quickly taken up by many Hotel Hoppa users. We also installed automated ticket kiosks at the hotels this business serves, which have proved equally popular with passengers.

We have made considerable investment in the Commercial Services division over the last five years. It is pleasing to be able to report that revenues have as a result grown by about 30% in that time period.

**Charter Services**

Revenues in Charter Services fell by 31% compared to the previous year to £1.9 million (2017: £2.8 million). Charter Services comprised 3.1% of group revenues in 2018, compared to 5.3% in 2017. This decrease was almost entirely due to the fact that we were unable this year to obtain the same level of rail replacement work which we had secured in 2017. Revenues from private hire elsewhere, principally serviced from our Heathrow depot, held up well when compared with the revenues from this source achieved in the previous year.

# Chairman’s Statement and Review of Operations

(continued)

## Strategy and the Bus Services Act 2017

The Bus Services Act 2017 continues to have a major impact on developments in the bus industry. The Act enables the re-franchising of bus networks in any area with an elected mayor. This affects two regions in which we have a major presence, but the approach of the respective transport authorities in each of these regions is different.

In Greater Manchester, Transport for Greater Manchester ("TfGM"), under the direction of the Mayor, has stated a desire to achieve complete control over the region’s bus networks by the re-franchising process set out in the Bus Services Act, if this can be achieved. TfGM has commissioned the feasibility study which the Act empowers it to undertake to look at the refranchising proposal. At the present time the outcome of this study is unknown. However we do not see refranchising in this region as a threat. Currently the Manchester market is completely dominated by two major players. Any refranchising plan will seek to spread market share more equally among market participants, as in the London market. Thus, in a refranchised market, a group like Rotala might potentially achieve a market share which it could not possibly aspire to under current market conditions.

In the West Midlands however a different approach is being followed by Transport for the West Midlands ("TfWM""). TfWM has not utilised powers from the Bus Services Act 2017 for Enhanced Partnerships or franchising schemes but has continued with the Bus Alliance which was already underway using powers from previous legislation. These powers enable TfWM to promote partnerships between bus operators on routes on which they already compete providing they can demonstrate a customer benefit. So far TfWM has created two of these partnerships on routes on which our Diamond Bus subsidiary competes directly against the bus subsidiary of National Express plc. This is beneficial for passengers who can now buy a multi-operator ticket which is valid on any bus on the routes in question without price supplements. The buses from both operators are branded in a common livery and run at an agreed headway which ensures that a bus will pass any stop every few minutes. From our perspective we are experiencing, as we expected from our modelling, lower operating costs but higher bus loadings with no reduction in overall revenues. These Bus Alliances therefore have produced benefits for both passengers and bus operators in a more planned and co-ordinated approach to running on a major route. Negotiations with TfWM continue to expand Bus Alliances to further routes in 2019, for which there are a number of existing candidates

## Acquisitions and Disposals

At the end of February 2018 the Group acquired from CEN Group Limited, trading as Central Buses ("Central"), its entire bus business, bus brand and 31-strong vehicle fleet for a cash consideration of £1,950,000. The Central business had annual revenues of approximately £2.8 million and its vehicle fleet had a fair value at acquisition of approximately £1.5 million. No other assets or liabilities of any materiality were assumed on acquisition.

Central Buses was a well-established operator of commercial and contracted bus services in the northern part of the West Midlands area. This business, with its staff, was immediately integrated into the existing depot infrastructure which Rotala already possesses in the West Midlands and so no additional overhead was required as part of the acquisition. The acquisition extends the Group’s network of bus services in the northern part of Birmingham, particularly in the Perry Barr area.

In order to integrate the acquisition with the rest of the Group we re-equipped the business with the standard Ticketer ticket machines which we use in the West Midlands region. In the first half of 2018 we also moved the whole Manchester business onto these machines and in the second half completed the roll out of this ticketing system over the whole group by converting the Preston business to these ticket machines. This investment in new ticket machines forms the majority of the addition to plant and machinery of £895,000 in the year.

I have for several years been reporting to you the steadily reducing size of our operations in the South West of England. During the year we reviewed our position. We concluded that market changes in the region as a result of the Bus Services Act were likely in the medium, rather than the short, term and that we would achieve better returns on our available capital by investing in the West Midlands and the North West. Therefore we took the decision to deregister our remaining commercial services and novate the bus contracts we held to a local subsidiary of Stagecoach plc. A small part of the business was transferred to our Heathrow depot. Almost all the staff were re-deployed internally or externally by these steps and less than a handful had to be made redundant. A small number of vehicles were sold to Stagecoach plc at their net book values and the remainder were redeployed to other depots in the group. Finally at the end of the accounting year we were able to dispose of the now unused Avonmouth depot to a property investor at a small profit.

## Dividend

As the company matures I expect the dividend to be progressive. The board is conscious of the importance of dividend flows to shareholders and has set a target dividend cover of 2.5 times earnings, to match underlying earnings and free cash flows.

The company paid an interim dividend of 0.92 pence per share in December 2018. The board will recommend to the forthcoming Annual General Meeting a final dividend in respect of 2018 of 1.78 pence per share making a total of 2.70 pence for the year (2017: 2.50 pence).

## Fleet management

We have been very active this year in reshaping the bus fleet to match our changing requirements. We acquired 10 new buses for local bus contracts servicing northern Surrey early in the year and 16 smaller buses (based on a Mercedes van chassis) for use in Preston and the West Midlands. These vehicles have proved popular with passengers and drivers, and have shown themselves to be most suitable to the narrow streets often found in older built up areas. In addition we acquired some 40 attractively-priced second hand vehicles, integrated the 31 vehicles inherited with the Central Buses acquisition, and the 40 vehicles redeployed from the former South West operation. This resulted in the disposal of a matching number of older vehicles in the year. Since the year end we have acquired a 20 strong batch of new buses for our West Midlands operation. The average age of the fleet is therefore now about 9.42 years, slightly better than the comparable figure of 9.50 years which we saw at the beginning of the year. These figures are both closely comparable to bus fleets outside Greater London, where different contractual conditions apply.

Both TfGM and TfWM are under pressure to meet air quality targets in the near future in their respective city centres and we therefore expect to continue to upgrade the buses used for these locations, as we did in the West Midlands shortly after the year end. However government or local authority grant packages are expected to be available to facilitate the attainment of these targets and so we do not anticipate that these changes will have a material impact on our business. Elsewhere in our operations we do not see the need for a significant number of new vehicles in the remainder of 2019 unless customer requirements change. New vehicles in these circumstances would be matched by significant additional revenues and so make commercial sense. We will continue to manage the fleet actively in accordance with our policies and this will no doubt result in an on-going level of vehicle acquisition and disposal.

When acquiring any vehicle new to the fleet we are acutely conscious of its emission standards and relative fuel consumption. We believe that having a modern and efficient bus fleet is a key aspect of customer service. Management monitors each vehicle in the fleet for relative fuel consumption, reliability and maintenance cost. Older vehicles also produce a greater level of emissions and we are keen to minimise this aspect of bus operation. Those vehicles that fall outside of acceptable parameters are designated for disposal.

## Fuel hedging

The annual fuel requirement of the Group is approximately 11.5 million litres. Taking advantage of a weakness in crude oil prices, in late November 2018, the Board took out a number of fuel hedge contracts, using diesel derivatives, in order to cover approximately 50% of its fuel requirement for 2019. The coverage of these hedging contracts was later further extended. Consequently all of the group's fuel requirement for 2019 is now covered by hedging contracts, at an average price of 100p per litre, which is the price that the group has used in preparing its budget for 2019.

The Board will continue to monitor market conditions closely and take out such further fuel hedges as it deems are appropriate to meet its objective of reducing volatility in its costs and creating business certainty.

# Chairman's Statement and Review of Operations

(continued)

## Banking

At the beginning of the year, the group changed its principal bankers to HSBC Bank plc and entered into new and enlarged facilities to support its greater scale of operation. These facilities are generally on more favourable terms than the ones they replaced but the borrowings of the group were initially unchanged. The new facilities comprise a term loan of £5.5m, a revolving facility of £15.5m and an overdraft facility of £3.5m, with a maturity date for all these facilities of 5 December 2021. Taking into account these new facilities and parallel asset finance facilities, the group has approximately £10 million of headroom with which it can finance further potential acquisitions.

## Financial review

**Income statement**

The Consolidated Income Statement is set out on page 35. This section of the review addresses the results for continuing operations before the mark to market provision for fuel derivatives and other exceptional items. Revenues for the year rose by 19% compared to those of 2017. This increase was principally driven by the acquisitions made in the year. Cost of Sales correspondingly rose by 19%. Gross Profits increased by 16%, whilst the gross profit margin fell slightly to 20.0% (2017: 20.46%) as the new acquisitions were integrated into the rest of the group. Administrative expenses increased by 13.5% as a result of the general expansion in the size of the group and information technology costs, particularly the Ticketer ticket machine system now deployed across the whole group. Profit from Operations grew to £5.76 million (2017: £4.86 million), an increase of 19% on the previous year. As a consequence adjusted EBITDA rose by 14% to £8.8 million (2017: £7.75 million). Finance expense however rose by 21%, reflecting the increased bank and HP borrowings used to finance the acquisitions made over the last two years. Profit before taxation therefore rose by 18% when compared to the previous year to £4.23 million (2017: £3.59 million).

The exceptional items represented by the mark to market provision on fuel derivatives and other exceptional costs are analysed in detail in note 9 to these financial statements. Profit from Operations after exceptional items was £5.18 million, compared to £4.06 million in 2017, a rise of 28%. Furthermore Profit before Taxation, and after all exceptional items, was in 2018 £3.65 million (2017: £2.80 million), representing an increase of 30%. The losses from the discontinued operations in the South West are analysed separately in note 11.

All earnings per share calculations were affected by the underlying increase in the weighted average number of shares in issue. These rose from 44 million in 2017 to 48 million in 2018, a rise of 9%. Nevertheless basic earnings per share in 2018, after taking into account the mark to market provision and other exceptional items, rose, for continuing operations, by 9% to 5.92p per share (2017: 5.42p). Basic earnings per share for the discontinued operations were a loss of 1.11p per share (2017: a loss of 0.69p per share). However, the impact of the mark to market provisions, the other exceptional items and the discontinued operation make the basic earnings per share numbers very difficult to understand. A better guide to true comparability is to consider the adjusted basic earnings per share numbers. Adjusted basic earnings per share (before the mark to market provision, the other exceptional items and the discontinued operation) were 7.22p in 2018, compared to 6.65p in 2017, an increase of 9% year on year.

**Balance sheet**

The gross assets of the group grew by 10% in the year and stood at £76.0 million at 30 November 2018 (2017: £68.9 million). The book value of property, plant and equipment increased by some £2.5 million year on year. This reflected both the assets which arrived with the acquisition made in the year, the considerable changes to the vehicle fleet described in the Chairman's Statement and the disposal of the depot at Avonmouth right at the end of the year. Following the lifting of the asset ceiling restriction, as described in note 24, we have been able to recognise the full defined benefit pension scheme asset in these accounts. Goodwill and other intangible assets increased only slightly as a result of the one acquisition made in the year and the amortisation of £450,000 of contract-related intangibles.

Stocks of parts, tyres and fuel were increased at the year's end. This was partly the result of the increased size of the group but also because we stocked up on fuel to take advantage of the prevailing price. The growth in Trade and Other Receivables also reflects the increased size of the group, particularly in contracted business, but also the lags in recovery of such items as Bus Services Operator's Grant which are slow to adjust to increased levels of activity. Trade and Other Payables were stable.

The gross loans and borrowings of the group overall rose by about 10% to £17.9 million (2017: £16.3 million). At the 2017 year end HSBC Bank plc was about to become the group's principal banker. This change duly happened early in December 2017. However this change dictated that all the borrowings of the group were classified as current at the end of 2017, but the 2018 balance sheet reflects the appropriate split between current and longer-term mortgage elements.

In line with the fleet changes already mentioned obligations under hire purchase contracts rose to £14.0 million at the year end compared to £11.5 million the year before. The gross liabilities of the group were therefore 12% higher than the previous year at £41.1 million (2017: £36.6 million). There were no new share issues this year, but, responding to the positive factors described above, the net assets of the group rose to £34.9 million at the end of the year, compared to £32.4 million at the end of 2017, a rise of 8% year on year.

**Cash flow statement**

Cash flows from operating activities (before changes in working capital and provisions) rose strongly to reach £7.98 million (2017: £6.28 million), an increase of 27%. However the Hotel Hoppa acquisition right at the end of 2017 and the Central Buses acquisition of 2018 were both deals for trade and assets only. Therefore the group had to supply the working capital necessary to sustain these businesses from its own resources. This was much the same picture as had prevailed in 2017, for very similar reasons. The accrued mark to market profit on the fuel derivative at the end of 2017 proved to be a considerable underestimate of cash inflows from this source as fuel prices rose further in the year. Interest paid on HP agreements increased somewhat when compared to the previous year. As a result of the above factors net cash flows from operating activities were 23% up on 2017 at £4.13 million (2017: £3.34 million).

Cash used in investing activities in the year was much lower than the previous year, largely because of the sale of the Avonmouth depot. Purchases of property, plant and equipment rose year on year. The monies expended in 2018 included an additional piece of freehold property so as to be able to expand our Eccles depot. In addition only one business was acquired in 2018, compared to three in 2017. Sales of surplus vehicles however raised a very similar sum to that of the previous year. The sale of the Avonmouth depot ensured that gross spend on property, plant and equipment was this year considerably outweighed by the funds raised by selling property, plant and equipment. Thus cash used in investing activities was £1.5 million net of related proceeds (2017: £4.1 million net).

Financing activities were affected by a number of events. No new shares were issued this year, unlike in 2017. Dividends paid reflect both an increase in the dividend per share and the number of shares in issue. As related above, in the first few days of the financial year, the principal banking relationship of the group moved to HSBC Bank plc. Accordingly all bank loans existing at that point were repaid and drawings on the new facilities replaced them. The bank interest paid in the year reflects the enlarged facilities granted to the group by its new bankers.

# Chairman's Statement and Review of Operations

(continued)

Advantage was again taken this year of the unencumbered value represented by the vehicle fleet. By refinancing these vehicles with new hire purchase arrangements £1.7 million (2017: £0.72 million) of capital was released to invest in the business. The capital element of payments on hire purchase agreements rose considerably to £3.75 million (2017: £3.09 million). This change was caused by the extensive changes made to the vehicle fleet in the year, reflected in both the increased HP financing obligation and the HP refinancing activity described above. The cash absorbed by financing activities therefore rose somewhat to £1.15 million net (2017: £0.57 million net).

Overall therefore cash and cash equivalents increased in the year by £1.47 million (2017: declined by £1.36 million). The closing overdraft, net of cash and cash equivalents, of £0.23 million was much improved on the £1.7 million in closing overdraft of 2017, and was in line with management's expectations.

## Outlook

The group performed well in 2018 and trading for the current year has begun in line with expectations.

The group possesses a strong and very experienced management team which has demonstrated over the last decade that it has the right strategy and the skills to implement it. We continue to be actively engaged in hunting out potential acquisitions and, with the backing of our new bankers, possess considerable firepower with which we can attain our objectives. In our assessment there will continue to be much divestment and acquisition activity in the bus market in the next few years. Government policy changes since 2010 and now the Bus Services Act are the primary causes of the demise of the stability which had subsisted in the bus industry for the generation that followed its de-nationalisation in the 1980's. Such change brings opportunity to youthful and dynamic businesses like Rotala and we think we are very well positioned to take full advantage of any eventualities.

We are confident therefore about the prospects of the group and excited about the possibility of expanding it considerably in the years ahead.

**John Gunn**
Non-Executive Chairman

Date: 1 April 2019

# Strategic Report

## For the year ended 30 November 2018

Rotala Plc is an AIM-traded company operating commercial and subsidised bus routes for businesses, local authorities, and the general public. Rotala was formed in 2005 and has grown largely through the acquisition of smaller local bus operations.

Rotala aims to develop sustainable revenue streams through the expansion of its commercial bus and contracted activities and by being an active participator in transport business trends in the UK. The board believes that government policy since the election of the Coalition Government in 2010 has profoundly upset the old order in the bus industry. It has made life much more difficult for the small bus operator at the same time as undermining the viability of many operating units within the businesses of the large operators.

**Rotala's strategy is therefore to:**

- Take advantage of the opportunities being created by the Bus Services Act 2017 in the West Midlands and Greater Manchester areas;
- Continue to consolidate smaller businesses via bolt on acquisitions in existing areas of operation;
- Look to consolidate unwanted business units from the larger bus operators.

**Within these objectives Rotala Plc pursues the following key strategic goals:**

- To achieve sustainable growth in shareholder value;
- To meet our stated progressive dividend policy;
- To improve continually the operational capability of the group; and
- To deliver a consistent quality of service to customers.

**These goals are measured by:**

- A focus on earnings per share and the resultant share price;
- A focus on strong organic growth and higher margin business;
- The level of new investment in infrastructure, technology and training with the objective of a sustained increase in operational efficiency; and
- Continually monitoring the timeliness and completeness of service delivery and levels of customer complaint.

Clearly all business activity contains risks. The objective of the board is to achieve the goals set out above whilst taking on acceptable, but not excessive levels of risk, so as to ensure that the company is viable in the long term. The key risks are outlined further below.

## Principal risks and uncertainties

The directors consider that the following factors may be considered to be material risks and uncertainties facing the group:

| Risk | Potential impact | Management or mitigation |
|---|---|---|
| Variations in the price of fuel. | Fuel is a significant cost to the business. If fuel increases in price in circumstances where sales prices cannot be increased, then profitability will be affected. | Management monitors fuel prices closely, negotiates fuel escalator clauses where possible and increases fares if input costs rise in a sustained pattern. Management enters into fuel price fixing arrangements as described in the Chairman's Statement. Management also monitors fleet fuel efficiency and uses technological aids to optimise fuel usage. |
| The availability of sufficient capital and leasing facilities to finance the growth in the group's businesses. | The group may miss growth opportunities. | Management maintains close contact with actual and potential shareholders. Relationships with the providers of the group's asset financing and banking facilities are dealt with centrally in order to keep them fully briefed about the progress of the group. All bank account and treasury management is conducted at group level. |
| New government legislation (such as the Bus Services Act 2017) or industry regulation. | Significant unplanned or unforeseen costs may be imposed on the business. | Management continually monitors regulatory and legal developments and participates keenly in industry forums. Management also ensures that it responds to requests for information and insight from governmental bodies. |
| Availability of management resources of the appropriate quality. | Lack of appropriate management skills damages the business and its prospects. | The board continually assesses skill requirements, management and structures as the business grows. Appropriate recruits are brought into the business and any necessary management development courses are instituted. |
| Fleet insurance and cover and level of vehicle insurance rates – particularly in the event of a major accident involving passenger fatality. | The group may not be able to obtain adequate levels of insurance cover. | The group is self-insured for high frequency claims of low value, as set out in the group's accounting policies. Claims above a certain level are comprehensively insured in the normal way. Driver training emphasises a risk - averse culture. Accident rates are monitored centrally. Claims are managed by a claims handler who works closely with the group's insurance adviser and insurers. Relationships with insurance brokers and providers are considered to be key and are managed centrally by the group. |

# Strategic Report
(continued)

## Rotala's Core Values

Our commitment is to conduct business in an ethical manner; our core values convey our organisational beliefs:

- Professional – in our approach to business, with expert presence;
- Innovative – in creating new solutions;
- Agile - quick to respond and make decisions;
- Collaborative - working together with all stakeholders;
- Commercially orientated - delivering what clients require;
- Results focused - focusing on the delivery of value and the job in hand;
- Risk aware - assessing options for alternative strategies.

Our brands signify consistency, reliability and employee commitment.

## Rotala's Mission

The commitment is to the delivery of a consistent quality of service in accordance with the service level requirements of all stakeholders. Continuous improvement is sought; close monitoring of service levels identifies areas for improvement. Well-planned, clearly focused training supports an improved quality of service.

Rotala aims to become the first choice supplier for bus operations in its target regions. Having grown through acquisition in key areas, Rotala has put itself into a position from which it can take advantage of future developments in the transport industry. The possession of substantial operations in the North West, the West Midlands and Heathrow areas ensures that the company is well positioned for future contract wins and organic commercial growth.

Rotala is committed to providing service excellence to stakeholders, by offering value for money and continuous improvement without compromising on the quality of service. By working closely with other businesses, councils and educational institutions, we ensure that flexibility and proactive management are key strengths in which Rotala invests. Our commitment to all stakeholders makes it possible to offer value to all sizes of organisation from the largest corporate to the smallest individual daily user.

The focus of the business is to build profitable and sustainable revenue. The business is composed largely of contracted or predictable commercial revenue streams which equate to more than 90% of current revenue levels. To achieve this level of predictability the business focuses on the development of its three principal revenue streams: contract, commercial and charter.

**Contract**

The key aspect of Contracted Operations is that the service is delivered under contract, to specified standards, with the price for the service determined by the contract alone. Contracted operations service two types of customer:

1. Individual organisations: these can have specific transport needs. Private bus networks are designed on a bespoke basis around these needs;
2. Local authorities: since bus denationalisation in the 1980's the bus market has evolved and the dominant operators are now more focused on creating profitable route networks, in contrast to the pre-denationalisation approach when size and breadth of service were the sole concerns. Thus commercial bus groups have, over time, either curtailed or withdrawn services and Local Authorities have made decisions that there is a social need to subsidise the on-going provision of bus services to locations which would not support a commercial bus route. Contracts for these subsidised services operate on a variety of different bases but the contracted element of the revenue is included under this heading. Major examples of these types of services during this accounting year were operated under contract to TfGM, TfWM, Lancashire County Council and Surrey County Council.

**Commercial**

On a purely commercial bus service, the company takes all the risk of operation. Where a contracted service obliges the operator to take an element of revenue risk (the proportion of which can vary considerably), the variable element of the revenue is also included under this heading. Since its foundation Rotala has considerably expanded the number of commercial services it conducts in all of its operating areas.

**Charter**

Besides the main business streams above, Rotala also provides a private hire service to a variety of customers. Typically this covers business or service disruption, such as rail replacement or plane diversion.

## Key performance indicators (KPIs)

The key performance indicators of the group from continuing operations (before mark to market provisions, acquisition expenses and other exceptional items) are considered to be:

| | 2018 | 2017 |
|---|---|---|
| Gross profit margin | 20.0% | 20.5% |
| Profit from operations before mark to market provisions and other exceptional items | £5,761,000 | £4,855,000 |
| Profit before taxation and mark to market provisions and other exceptional items | £4,230,000 | £3,591,000 |

The key performance indicators of the group from continuing operations (after all exceptional items) are considered to be:

| | 2018 | 2017 |
|---|---|---|
| Gross profit margin | 20.0% | 20.5% |
| Profit from operations | £5,181,000 | £4,059,000 |
| Profit before taxation | £3,650,000 | £2,795,000 |

These key performance indicators are used as follows:

1. Gross profit margin: it is fundamental to the longer term sustainability of the group that it attains a suitable level of gross profit in all of its activities. In any contracted business the gross profit margin is computed as part of the pricing process. Actual margin is then monitored in relation to the contract and service delivery targets. Gross profit margin will vary depending on the type, location and duration of the contract. Where the revenue is variable and derived from passengers, routes are constantly monitored for gross profit margin. Passenger loadings are also analysed and, in concert with margin analysis, frequencies and routes adjusted to maximise revenue yields. In these instances margins will vary in acceptability depending upon the length, locality and maturity of the route and the extent of competition;

2. Profit from operations before exceptional items: profit from operations before mark to market provisions and other exceptional items is a very important determinant of the long term success of the whole business. Because this indicator is calculated before interest it represents the theoretical debt-free performance of the group and is thus a key measure of value. It is also a measure of how effectively and efficiently the group is using its operating assets, particularly in relation to its peers. Therefore this metric is monitored monthly and progress is frequently reviewed;

# Strategic Report
(continued)

3. Profit before taxation before mark to market provisions and other exceptional items: this indicator is a key determinant of return to shareholders. Therefore it is monitored through the prism of the monthly management accounts and reviewed by the board at its monthly meetings. The board places particular emphasis upon the target that this indicator should grow constantly because in this manner it can be confident that it is serving the interests of shareholders and providing the group thereby with the means to sustain its ambitions to increase its overall levels of business.

## Trading results and Statement of Financial Position

A review of the group's activities, using its key performance indicators, and a review of its future prospects are contained in the Chairman's Statement and Review of Operations on pages 10 to 16. The group's results for the year are set out on page 35. The results of the year and the financial position as at 30 November 2018 are considered by the directors to be satisfactory.

## Going concern

The board has examined its strategy and considered its profit and loss and cash flow projections over the two years to 30 November 2020. It has also evaluated the hire purchase, loan and overdraft facilities available to the group in connection with that period. After due enquiry, the board has judged the cash flow forecasts, asset financing and banking resources of the group to be adequate to support its continued operations for the foreseeable future and has adopted the going concern basis in preparing the financial statements.

## Corporate governance

As the company's shares are traded on AIM, the company is required to comply with a Corporate Governance code. It has chosen as its benchmark the Corporate Governance Code developed by the Quoted Companies Alliance ("QCA"). On the company's website at www.rotalaplc.com/our-investors/corporate-governance-code is to be found a full analysis of the QCA code in as far as it applies to the company.

The board is responsible for the management and successful development of the group by:

- setting its strategic direction;
- monitoring and guiding operational performance;
- establishing polices and internal controls to safeguard the group's assets.

The composition of the board provides a blend of skills and experience that ensures it operates as a balanced team. The board considers that it possesses collectively, through its members, a considerable range of experience in both transport and non-transport sectors. The board believes that this range of experience equips it well to supervise the running of the group and to give it effective direction. Members of the board commit through their contracts to devote as much time as is necessary to carry out their designated roles.

The Chairman does not believe that in a group such as this the board should seek to delegate any of its responsibilities to committees. The Chairman therefore requires that all directors participate fully in debates about remuneration and nomination to the board, and that the board as a whole meets with the Statutory Auditor to agree the audit strategy and to receive his Audit Report annually. On this matter the company does not comply with Principle 5 of the QCA Code for the reasons stated above.

Furthermore the board does not currently review its effectiveness of performance on a regular or formal basis. Nor does it formally review the performance of individual directors. The Chairman believes that the company still retains the characteristics of its starting point: it began as a family company and in the main still is one. Given these attributes the Chairman takes the view that the formal review of the performance of each director is not appropriate. The board supports the Chairman in this approach. The board as a whole also believes that, at the current time, to review in any formal sense the effectiveness or the performance of the board would not serve any purpose. This does not mean that the board tolerates under-performance or lacks self-criticism. The Chairman has constructed a board in which he expects to see very robust, full and frank views delivered on the performance of the company and all other items on the agenda. This expectation is met at all board meetings. The board believes that it operates effectively at the current time in serving the strategic objectives of the company.

Succession planning in such an environment is difficult, as it always is in a family company. Succession to key executive roles is therefore a risk, which the board acknowledges, while noting that it believes that no one is indispensable. As the company grows in size, the board expects that it too will grow commensurately. Over time therefore the expectation is that more formality over performance of individuals and board will naturally develop, as the company ceases to be reliant on its family base.

Because there is no formal performance review of individual directors nor a formal review process of overall board effectiveness in accordance with Principle 7 of the QCA Code, the company departs from the Code in this respect also.

The board meets regularly to review trading performance, to ensure adequate funding is available, to set and monitor strategy, and when appropriate, to report to shareholders. To enable the board to discharge its duties, all directors receive appropriate and timely information.

The board is responsible for maintaining a strong system of internal control to safeguard shareholders' investments and the group's assets. The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The directors are responsible for the group's system of financial control and for reviewing its effectiveness.

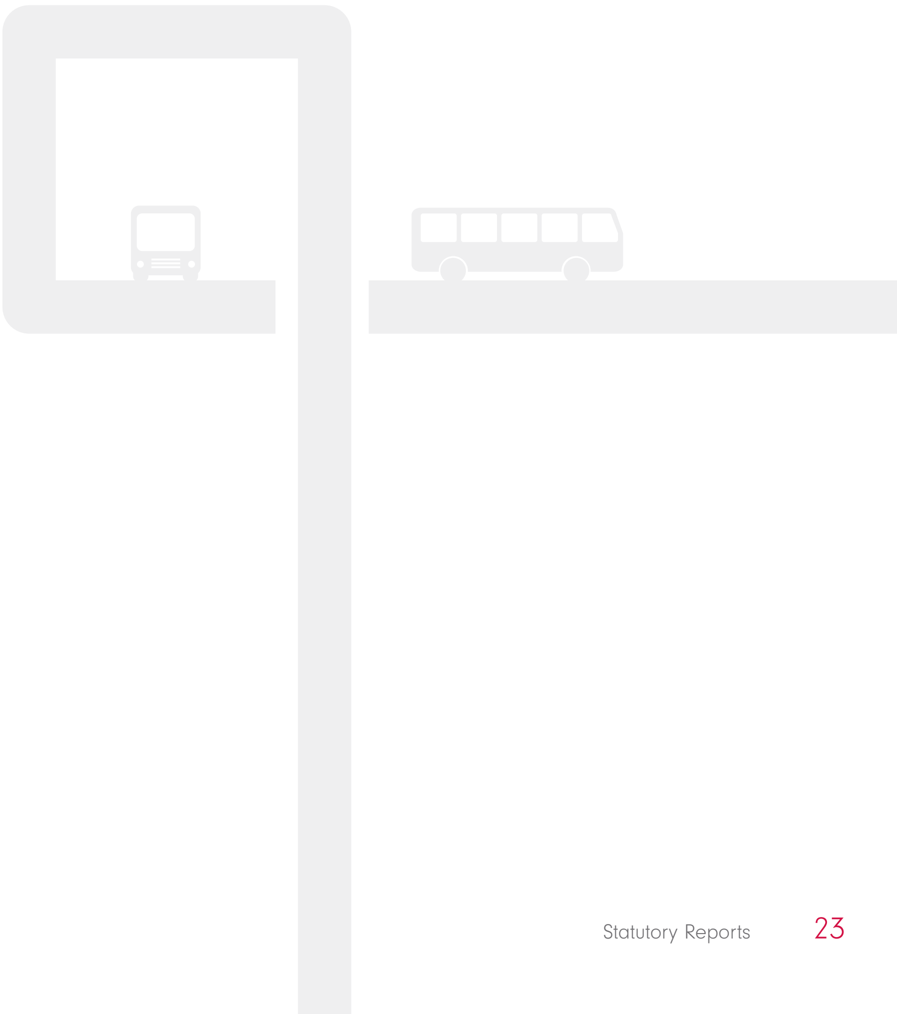
## Relationships with shareholders

The company values the views of its shareholders and recognises their interest in the company's strategy and performance. The Annual General Meeting is used to communicate with shareholders and they are encouraged to participate. The directors will be available to answer questions at the Annual General Meeting.

By order of the Board.

**Kim Taylor**
Secretary

Date: 1 April 2019



# Directors' Report

## For the year ended 30 November 2018

The directors present their statutory report for the group for the year ended 30 November 2018.

### Directors

The following Directors have held office during the year:

| |
|---|
| **J H Gunn** |
| **R A Dunn** |
| **S L Dunn** |
| **G F Peacock** |
| **G M Spooner** |
| **K M Taylor** |

### Future developments and achievement of strategic goals

Likely future developments in the business and the progress that the group has made towards its strategic goals are required to be addressed in the Directors' Report by Schedule 7 of the 'Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008', in accordance with section 414C (11) of the Companies Act. In these accounts reference should be made to the Chairman's Statement and Review of Operations set out on pages 10 to 16 for a full description of these matters.

### Dividends and Share Price

An interim dividend in respect of 2018 of 0.92p per share was paid on 7 December 2018. The directors will propose a final dividend for the year to the Annual General Meeting of 1.78p per share. In respect of the year ended 30 November 2017, an interim dividend of 0.85p per share was paid on 8 December 2017. A final dividend of 1.65p per share was paid on 29 June 2018. The total cash outflow for dividends paid in the year was therefore £1,201,000.

The company's share price at 30 November 2018 was 47.30p (2017: 55.50p). The high and low prices in the year were 59.95p and 47.30p respectively.

### Employment policies and employee involvement and communication

The group's employment policies are regularly reviewed to ensure they remain effective. These policies promote a working environment which underpins the recruitment and retention of professional and conscientious employees, and which improves productivity in an atmosphere free of discrimination. The group is committed to giving full and fair consideration to all applications for employment from those who are disabled, to their training, career development and promotion, where employed, and to continuing the employment and training of those who become disabled while employed.

It is a key policy of the group to consider the health and welfare of employees by maintaining safe places and methods of work. The group employs a Health and Safety Auditor, who assesses regularly all places of work under a standardised testing scheme. Reports of these tests are communicated to the board.

Training is also a priority task and is a focus of considerable effort, especially in the field of dealing with passengers. All drivers are issued with a handbook at the commencement of their employment which sets out in detail the standards which they are expected to meet.

Employees are briefed regularly about the performance and prospects of the group and their individual depots; they are also consulted about and involved in the development of the group in a number of ways, which include regular briefings, team updates and announcements.

An SAYE scheme exists for the benefit of all employees. The details of the scheme are set out in note 27 to these financial statements.

## Directors' interests

The beneficial interests of the directors and their families in the company's shares and share options were as follows:

| | | 2018 Ordinary shares of 25p each | 2018 Options over ordinary shares of 25p each | 2017 Ordinary shares of 25p each | 2017 Options over ordinary shares of 25p each |
|---|---|---|---|---|---|
| J H Gunn | Beneficial | 5,364,487 | - | 5,364,487 | - |
| R A Dunn | Beneficial | 1,112,425 | 646,007 | 931,925 | 1,046,007 |
| S L Dunn | Beneficial | 1,593,047 | 918,604 | 1,536,117 | 1,003,604 |
| G F Peacock | Beneficial | 2,916,666 | - | 2,741,666 | - |
| G M Spooner | Beneficial | 250,000 | - | 50,000 | - |
| K M Taylor | Beneficial | 573,056 | 395,000 | 573,056 | 480,000 |

J H Gunn is also a director of and shareholder in The 181 Fund Limited: see note 31 – Related Parties and Transactions.

| | At 30 November 2017 | Exercise Price | Lapsed | At 30 November 2018 | Date Exercisable | Date of Expiry |
|---|---|---|---|---|---|---|
| R A Dunn | 400,000 | 50.0p | (400,000) | - | - | - |
| | 31,007 | 58.05p | - | 31,007 | 01/12/2019 | 01/06/2020 |
| | 615,000 | 54.0p | - | 615,000 | 24/11/2017 | 23/11/2024 |
| | 1,046,007 | | (400,000) | 646,007 | | |
| S L Dunn | 85,000 | 50.0p | (85,000) | - | - | - |
| | 18,604 | 58.05p | - | 18,604 | 01/12/2019 | 01/06/2020 |
| | 900,000 | 54.0p | - | 900,000 | 24/11/2017 | 23/11/2024 |
| | 1,003,604 | | (85,000) | 918,604 | | |
| K M Taylor | 85,000 | 50.0p | (85,000) | - | - | - |
| | 395,000 | 54.0p | - | 395,000 | 24/11/2017 | 23/11/2024 |
| | 480,000 | | (85,000) | 395,000 | | |

The remuneration of the directors is set out in note 6 of these financial statements. Contracts existing during, or at the end of the year, in which a director was or is materially interested, other than employment contracts, are disclosed in note 31 – Related Parties and Transactions.

**Effect of the Withdrawal of the United Kingdom from the European Union**

The directors do not anticipate that the withdrawal of the United Kingdom from the European Union will have any material impact on the business of the company or the group.

# Directors' Report

## For the year ended 30 November 2018

### Purchase of own shares

Ordinary shares have been purchased for treasury in order to meet the need to issue shares in respect of the exercise of share options.

| | 2018 | 2018 | 2018 | 2017 | 2017 | 2017 |
|---|---|---|---|---|---|---|
| | Number | % of called up share capital | £ Cost or proceeds | Number | % of called up share capital | £ Cost or proceeds |
| Ordinary shares held in treasury at beginning of year | 854,338 | 1.75 | 817,036 | 854,338 | 1.98 | 817,036 |
| Acquired during the year | - | - | - | - | - | - |
| Issued for cash in respect of share option exercises | - | - | - | - | - | - |
| Ordinary shares held in treasury at end of year | 854,338 | 1.75 | 817,036 | 854,338 | 1.75 | 817,036 |

The maximum number of ordinary shares held in treasury during the year was 854,338 (2017: 854,338), representing 1.75% of the called up share capital of the company (2017: 1.98%)

### Substantial shareholdings

As at 1 April 2019 the company had been notified that the following were interested in 3% or more of the ordinary share capital of the company:

| Name | Number of Ordinary Shares | % |
|---|---|---|
| Mr Nigel Wray | 7,609,400 | 15.84 |
| Close Asset Management Limited | 6,716,309 | 13.98 |
| Mr John Gunn | 5,364,487 | 11.17 |
| Mr Graham Peacock | 2,916,666 | 6.07 |
| Mrs S Tobbell | 2,916,666 | 6.07 |
| The 181 Fund Limited | 1,702,443 | 3.54 |
| Mr S L Dunn | 1,603,687 | 3.34 |

### Financial instruments

Details of financial instruments, including information about exposure to financial risks and the financial risk management objectives and policies, are given in note 30.

## Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The directors have elected to prepare the parent company financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Standards (United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 'Reduced Disclosure Framework'). 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 and profit or loss of the company and 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;
- for the group financial statements, state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for keeping adequate accounting records which are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

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

## Directors' indemnity

The company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the company. Appropriate directors' and officers' liability insurance cover is in place in respect of all the directors..

## Auditors

Mazars LLP have expressed their willingness to continue in office as auditor. A resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

For the year ended 30 November 2018, the group has taken advantage of the exemption offered in sections 479A – 479C of the Companies Act 2006 and some of its subsidiaries have not been subject to an individual annual audit. Rotala Plc has given a statutory guarantee to each of these subsidiaries guaranteeing their liabilities, a copy of which will be filed at Companies House.

By order of the Board.

**Kim Taylor**
Secretary

Date: 1 April 2019

Company No: 05338907

# Independent Auditor’s Report

## To the members of Rotala Plc

### Opinion

We have audited the financial statements of Rotala Plc (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 30 November 2018 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, Company Statement of Financial Position and Company Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group’s and of the parent company’s affairs as at 30 November 2018 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### The impact of uncertainties due to United Kingdom exiting the European Union on our audit

The Directors’ view on the impact of Brexit is disclosed on page 25.

The terms on which the United Kingdom may withdraw from the European Union are not clear and it is therefore not currently possible to evaluate all the potential implications to the group’s and the parent company’s trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the group and the parent company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the group’s and company’s future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the group and the parent company and this is particularly the case in relation to Brexit.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group’s or the parent company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| The Risk | Our Response |
|---|---|
| **Revenue Recognition**<br>The group's accounting policy for revenue recognition is set out in the accounting policy notes on page 44.<br>Revenue is a material balance for Rotala Plc and represents the largest balance in the consolidated statement of comprehensive income. An error in this balance could significantly affect a user's interpretation of the financial statements.<br>As a result, we identified revenue recognition and, in particular, cut-off on both the contracted and commercial revenue streams to be a key audit matter. | Our procedures over revenue recognition included, but were not limited to:<br>• The review and testing of controls in place around the recognition of Bus ticket income to ensure that revenue stated in the statutory accounts is accurate. Specifically, this included reviewing the reconciliation between the Till Receipt system and the nominal ledger and performing a test of control around the accuracy of the Till Receipt system with reference to the amounts banked in relation to commercial income streams.<br>• Detailed testing of a sample of revenue transactions pre and post year end to ensure they were accounted for in the correct period.<br>No material misstatements in both contracted and commercial revenues were identified as a result of the audit procedures performed. |

## Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| Financial Statement materiality: | £1,166,000 |
| Benchmark applied: | Materiality has been determined with reference to a benchmark of Revenue, of which it represents 1.8%. |
| Basis for chosen benchmark: | We used Revenue to calculate our materiality as, in our view, this is the most relevant measure of the underlying financial performance of the company. |

On the basis of our risk assessments, together with our assessment of the group's overall control environment, our judgement was that performance materiality was approximately 75 per cent of our financial statement materiality, namely £874,500.

We agreed with the Board of Directors that we would report to the Board all audit differences in excess of £35,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Board of Directors on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.

Audit work on subsidiary entities for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on individual statutory performance materiality which is lower than the consolidated materiality set out above. The performance materiality set for each subsidiary is based on the relative scale and risk of the subsidiary to the group as a whole and our assessment of the risk of misstatement at subsidiary level. In the current period, the performance materiality allocated to the sole subsidiary of the group subject to an audit was £254,000.

The company financial statement materiality has been set as 1.8% of Total Assets, namely £950,000. Performance materiality has been set at approximately 75 per cent of our financial statement materiality, namely £713,000.

## An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the group and company, the structure of the group and the parent company and the industry in which it operates. We considered the risk of acts by the company which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006.

We tailored the scope of our group audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of a risk assessment, our understanding of the parent company and group's, accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our tests included, but were not limited to, 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 irregularities including fraud, review of minutes of directors' meetings in the year and enquiries of management. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, all entities within the group were subject to full scope audit performed by the group audit team. At the parent company level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

In light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

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

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

## Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

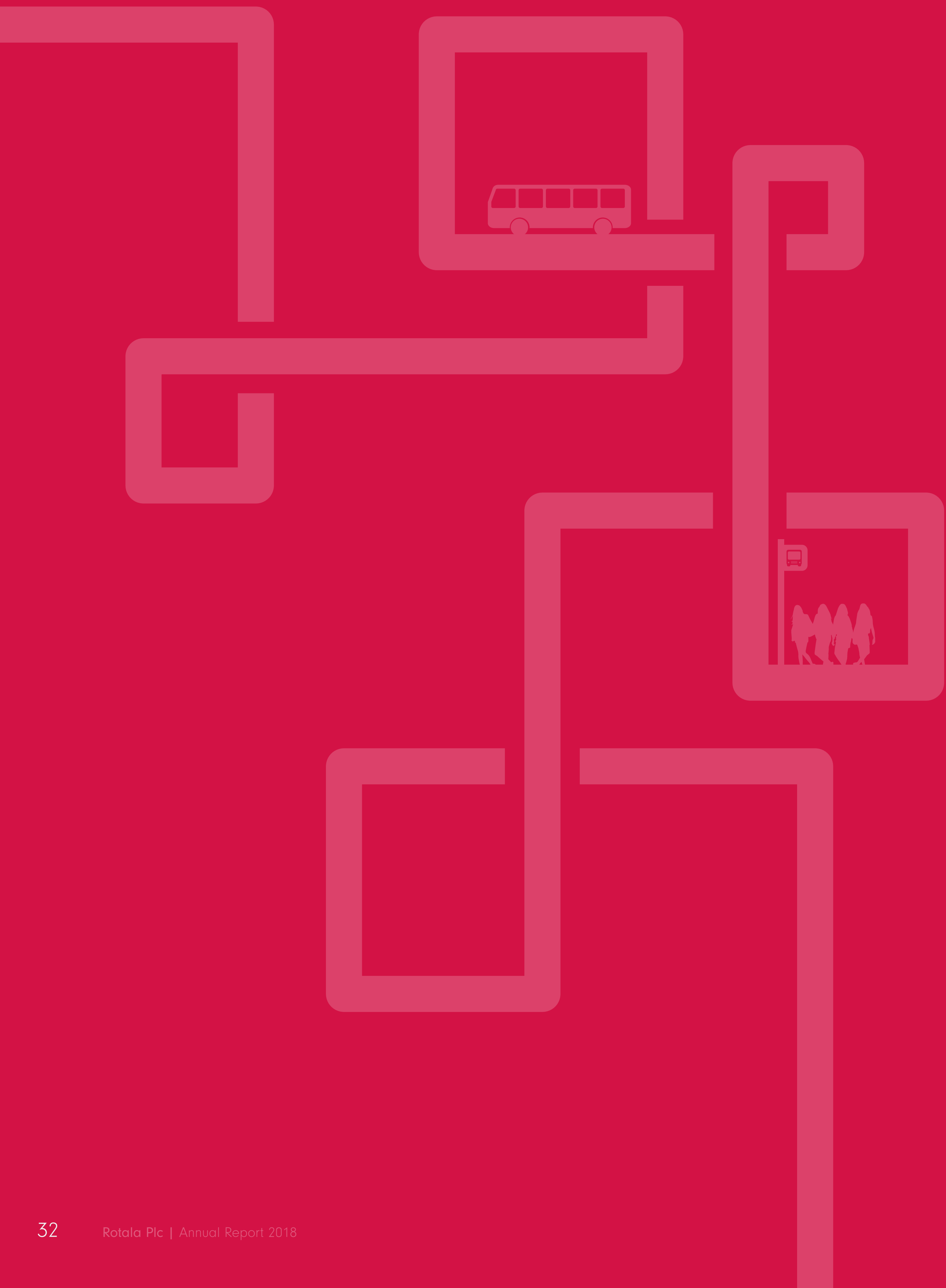
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Use of the audit report

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.

**Louis Burns**
(Senior Statutory Auditor) for and on behalf of Mazars LLP.
Chartered Accountants and Statutory Auditor, 45 Church Street, Birmingham B3 2RT

Date: 1 April 2019




# 3 Financial Statements

# Consolidated Income Statement

## For the year ended 30 November 2018

| | Note | 2018 Results before exceptional items £'000 | 2018 Exceptional items (notes 9 & 11) £'000 | 2018 Results for the year £'000 | 2017 Results before exceptional items (restated) £'000 | 2017 Exceptional items (notes 9 & 11) £'000 | 2017 Results for the year (restated) £'000 |
|---|---|---|---|---|---|---|---|
| Continuing operations Revenue | 4 | 62,408 | - | 62,408 | 52,625 | - | 52,625 |
| Cost of sales | | (49,942) | - | (49,942) | (41,860) | - | (41,860) |
| Gross profit | | 12,466 | - | 12,466 | 10,765 | - | 10,765 |
| Administrative expenses | | (6,705) | (580) | (7,285) | (5,910) | (796) | (6,706) |
| Profit from operations | 7 | 5,761 | (580) | 5,181 | 4,855 | (796) | 4,059 |
| Finance expense | 8 | (1,531) | - | (1,531) | (1,264) | - | (1,264) |
| Profit before taxation | 9 | 4,230 | (580) | 3,650 | 3,591 | (796) | 2,795 |
| Tax expense | 10 | (761) | (46) | (807) | (666) | 257 | (409) |
| Profit for the year from continuing operations | | 3,469 | (626) | 2,843 | 2,925 | (539) | 2,386 |
| Loss for the year from discontinued operations | 11 | - | (534) | (534) | - | (305) | (305) |
| Profit for the year attributable to the equity holders of the parent | | 3,469 | (1,160) | 2,309 | 2,925 | (844) | 2,081 |
| Earnings per share for profit attributable to the equity holders of the parent during the year: | | | | | | | |
| Basic –continuing operations (pence) | 12 | 7.22 | | 5.92 | 6.65 | | 5.42 |
| Basic – discontinued operations (pence) | 12 | - | | (1.11) | - | | (0.69) |
| Total | | 7.22 | | 4.81 | 6.65 | | 4.73 |
| Diluted – continuing operations (pence) | 12 | 7.22 | | 5.92 | 6.63 | | 5.41 |
| Diluted – discontinued operations (pence) | 12 | - | | (1.11) | - | | (0.69) |
| Total | | 7.22 | | 4.81 | 6.63 | | 4.72 |

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

## For the year ended 30 November 2018

| | Note | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|---|
| Profit for the year | | 2,309 | 2,081 |
| Other comprehensive income:<br>Items that will not subsequently be reclassified to profit or loss: | | | |
| Actuarial gain on defined benefit pension scheme | 24 | 1,748 | 58 |
| Deferred tax on actuarial gain on defined benefit pension scheme | 25 | (315) | (11) |
| Other comprehensive profit for the year (net of tax) | | 1,433 | 47 |
| Total comprehensive income for the year attributable to the equity holders of the parent | | 3,742 | 2,128 |

All of the activities of the group are classed as continuing.

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Financial Position

## As at 30 November 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 39,444 | 36,925 |
| Defined benefit pension asset | 24 | 1,737 | - |
| Goodwill and other intangible assets | 14 | 14,876 | 14,759 |
| Total non-current assets | | 56,057 | 51,684 |
| Current assets | | | |
| Inventories | 16 | 3,525 | 2,526 |
| Trade and other receivables | 17 | 15,895 | 13,646 |
| Derivative financial instruments | 22 | 95 | 450 |
| Cash and cash equivalents | 18 | 446 | 627 |
| Total current assets | | 19,961 | 17,249 |
| Total assets | | 76,018 | 68,933 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade and other payables | 19 | 6,465 | 6,477 |
| Loans and borrowings | 20 | 13,830 | 16,278 |
| Obligations under hire purchase contracts | 21 | 3,843 | 3,158 |
| Derivative financial instruments | 22 | 132 | - |
| Defined benefit pension obligation | 24 | 129 | 325 |
| Total current liabilities | | 24,399 | 26,238 |
| Non-current liabilities | | | |
| Loans and borrowings | 20 | 4,068 | - |
| Obligations under hire purchase contracts | 21 | 10,159 | 8,357 |
| Provision for liabilities | 23 | 740 | 1,203 |
| Defined benefit pension obligation | 24 | - | 102 |
| Net deferred taxation | 25 | 1,757 | 682 |
| Total non-current liabilities | | 16,724 | 10,344 |
| Total liabilities | | 41,123 | 36,582 |
| TOTAL NET ASSETS | | 34,895 | 32,351 |

The accompanying notes form an integral part of these financial statements.

| | Note | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|---|
| **Shareholders' funds** | | | |
| Share capital | 26 | 12,220 | 12,220 |
| Share premium reserve | | 11,779 | 11,779 |
| Merger reserve | | 2,567 | 2,567 |
| Shares in treasury | | (817) | (817) |
| Retained earnings | | 9,146 | 6,602 |
| TOTAL EQUITY | | 34,895 | 32,351 |

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 1 April 2019.

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**Simon Dunn**
Chief Executive

**Kim Taylor**
Group Finance Director

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

## For the year ended 30 November 2018

| | Share capital £'000 | Share premium reserve £'000 | Merger reserve £'000 | Shares in treasury £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| At 1 December 2016 | 10,762 | 9,875 | 2,567 | (817) | 5,424 | 27,811 |
| Profit for the year | - | - | - | - | 2,081 | 2,081 |
| Other comprehensive income | - | - | - | - | 47 | 47 |
| Total comprehensive income | - | - | - | - | 2,128 | 2,128 |
| Transactions with owners: | | | | | | |
| Dividends paid | - | - | - | - | (970) | (970) |
| Share based payment | - | - | - | - | 20 | 20 |
| Shares issued | 1,458 | 1,904 | - | - | - | 3,362 |
| Transactions with owners | 1,458 | 1,904 | - | - | (950) | 2,412 |
| At 30 November 2017 | 12,220 | 11,779 | 2,567 | (817) | 6,602 | 32,351 |
| Profit for the year | - | - | - | - | 2,309 | 2,309 |
| Other comprehensive income | - | - | - | - | 1,433 | 1,433 |
| Total comprehensive income | - | - | - | - | 3,742 | 3,742 |
| Transactions with owners: | | | | | | |
| Dividends paid | - | - | - | - | (1,201) | (1,201) |
| Share based payment | - | - | - | - | 3 | 3 |
| Transactions with owners | - | - | - | - | (1,198) | (1,198) |
| At 30 November 2018 | 12,220 | 11,779 | 2,567 | (817) | 9,146 | 34,895 |

- Called up share capital represents the nominal value of shares which have been issued;
- The share premium account includes any premiums received on the issue of share capital. Any transaction costs associated with the issuance of shares are deducted from the share premium reserve;
- The merger reserve arose as a consequence of an acquisition in 2005 in which more than 90% of the share capital of the acquired companies was purchased and new shares formed part of the consideration;
- Shares in Treasury result from the acquisition by the company of its own shares. Shares are issued from Treasury to meet the requirement to satisfy the exercise of share options under the company's SAYE and unapproved share option schemes;
- Retained earnings include all current and prior period retained profits and losses.

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 30 November 2018

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before taxation* | 2,998 | 2,419 |
| Adjustments for: | | |
| Depreciation | 3,391 | 3,274 |
| Acquisition expenses | 64 | 47 |
| Finance expense (net) | 1,531 | 1,264 |
| Gain on sale of property, plant and equipment | (172) | (446) |
| Contribution to defined benefit pension scheme | (298) | (337) |
| Intangible asset amortisation | 450 | 19 |
| Notional expense of defined benefit pension scheme | 11 | 22 |
| Equity settled share-based payment expense | 3 | 20 |
| Cash flows from operating activities before changes in working capital and provisions | 7,978 | 6,282 |
| (Increase)/decrease in inventories | (998) | 80 |
| Increase in trade and other receivables | (2,250) | (2,056) |
| (Decrease)/increase in trade and other payables | (41) | 396 |
| Movement in provisions | (463) | (450) |
| Movement on derivative financial instruments | 487 | (408) |
| | (3,265) | (2,438) |
| Cash generated from operations | 4,713 | 3,844 |
| Interest paid on hire purchase agreements | (588) | (501) |
| Net cash flows from operating activities carried forward | 4,125 | 3,343 |

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| *Profit before taxation comprises: | | |
| Profit before taxation in the Consolidated Income Statement | 3,650 | 2,795 |
| Loss before taxation for discontinued operations (note 11) | (387) | (376) |
| Impairment recognised on the re-measurement of the assets of the disposed business, gross of a tax credit of £48,000 (note 11) | (265) | - |
| Profit before taxation for the purposes of the cash flow statement | 2,998 | 2,419 |

The accompanying notes form an integral part of these financial statements.

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Cash flows from operating activities brought forward | 4,125 | 3,343 |
| Investing activities | | |
| Purchases of property, plant and equipment | (2,174) | (1,799) |
| Acquisition of businesses | (2,014) | (3,329) |
| Sale of property, plant and equipment | 2,685 | 1,002 |
| Net cash used in investing activities | (1,503) | (4,126) |
| Financing activities | | |
| Shares issued | - | 3,362 |
| Dividends paid | (1,201) | (970) |
| Proceeds of mortgage and other bank loans | 18,379 | 1,105 |
| Repayment of bank and other borrowings | (15,111) | (722) |
| Bank interest paid | (942) | (740) |
| Hire purchase refinancing receipts | 1,709 | 717 |
| Capital settlement payments on vehicles sold | (237) | (240) |
| Capital element of lease payments | (3,751) | (3,086) |
| Net cash used in financing activities | (1,154) | (574) |
| Net increase/(decrease) in cash and cash equivalents | 1,468 | (1,357) |
| Cash and cash equivalents at beginning of year | (1,699) | (342) |
| Cash and cash equivalents at end of year | (231) | (1,699) |

The accompanying notes form an integral part of these financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 30 November 2018

## 1. General information

Rotala Plc is incorporated and domiciled in the United Kingdom. Its principal activity is the provision of bus services and all activities take place in the United Kingdom.

The financial statements for the year ended 30 November 2018 (including the comparatives for the year ended 30 November 2017) were approved by the Board of Directors on 1 April 2019. Amendments to the financial statements are not permitted after they have been approved.

## 2. Accounting policies

**Basis of preparation**

The group's financial statements have been prepared in accordance with applicable International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements have been prepared on a going concern basis as described on page 22.

**Overall considerations**

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.
The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

**Critical accounting estimates and judgements**

Certain estimates and judgements need to be made by the directors of the group which affect the results and position of the group as reported in the financial statements. Estimates and judgements are required if, for example, as at the reporting date not all liabilities have been settled, and certain assets and liabilities are recorded at fair value which require a number of estimates and assumptions to be made.

**Estimates**

The major areas of estimation within the financial statements are as follows:

(a) Impairment of goodwill

The group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary. More information about the impairment review and the reasons for the directors' assessment that there is but a single Cash Generating Unit is included in note 15.

(b) Share based payment

The group has an equity-settled share-based remuneration scheme for employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options is estimated on the date of grant by using the Black-Scholes valuation model or a binomial valuation model, according to the characteristics of the option, and is based on certain assumptions. Those assumptions include, among others, the dividend growth rate, expected volatility, and the expected life of the options. Management then apply the fair value to the number of options expected to vest. For carrying amounts at the period end, see note 27.

(c) Pension scheme valuation

The liabilities in respect of defined benefit pension schemes are calculated by qualified actuaries and reviewed by the group, but are necessarily based on subjective assumptions. The principal uncertainties relate to the estimation of the life expectancies of scheme members, future investment yields and general market conditions for factors such as inflation and interest rates. The specific assumptions adopted are disclosed in detail in note 24 to the consolidated financial statements. Profits and losses in relation to changes in actuarial assumptions are taken directly to Other Comprehensive Income and therefore do not impact on the profitability of the business, but the changes do impact on net assets. For carrying amounts at the period end, see note 24.

## 2. Accounting policies (continued)

(d) Self-insurance

The estimation of insurance costs, under the group's self-insurance scheme, is based on premiums paid and claims experience. The actual outcome of claims made is determined over the five years following each period end; no rebate of premium is accounted for until each insurance period is closed. The directors regularly review claims made and, should insurance premiums paid to date and the insurance claims provision be considered inadequate in the light of claims experience, further appropriate provision would be made. The carrying amount at the period end amounted to £740,000 (2017: £1,203,000).

(e) Acquisition fair values and intangibles

In attributing value to intangibles on acquisition, management has made certain assumptions about the profitability of acquired businesses, brands and customer relationships. The key assumptions relate to the trading performance of the acquired business and the derivation of the fair value of assets or liabilities acquired, including any value attributable to intangible assets such as brands and contracts. Where a business acquired is loss-making, it is considered to be unlikely that brands or contracts have any value. Management uses valuation techniques and its knowledge of the market, combined with its experience of previous acquisitions, to determine the fair value of net assets acquired in business combinations. Management bases its assumptions on observable data as far as possible, but this is not always available. Where observable data is not available management uses the most suitable information it can identify. Estimated fair values may vary from the actual prices that would be achieved in an arms' length transaction at the reporting date. For carrying amounts at the period end, see note 14.

**Judgements**

The major areas of judgement within the financial statements are as follows:

(a) Useful lives of property, plant and equipment

Property, plant and equipment is depreciated over its useful life. Useful lives are based on the management's estimates of the periods within which the assets will generate revenue and which are periodically reviewed for continued appropriateness. Changes to judgements can result in significant variations in the carrying value and amounts charged to the Consolidated Income Statement in specific periods. More details about carrying values are included in note 13.

(b) Deferred tax assets

In determining the deferred tax asset to be recognised, management carefully review the recoverability of these assets on a prudent basis and reach a judgement based on the best available information.

**Basis of consolidation**

The group financial statements consolidate the results of the company and all its subsidiary undertakings as at 30 November 2018. The results of subsidiary undertakings acquired are included from the date on which control over the acquisition, the right to exercise that control, and exposure to variable returns from the acquisition passed to the group. Intercompany transactions and balances between group companies are therefore eliminated in full.

**Business combinations**

Where the acquisition method is used, the results of the subsidiary are included from the date of acquisition. The purchase consideration is allocated to assets and liabilities on the basis of fair value at the date of acquisition. Acquisition costs are expensed as incurred.

## 2. Accounting policies (continued)

**Goodwill**

Goodwill represents any excess of the fair value of consideration transferred for the business acquisition over the acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is tested annually for any impairment and carried at cost less accumulated impairment losses. Any impairment charge would be included within administrative expenses in the Consolidated Income Statement. As the group has taken advantage of the exemption from restating all pre-transition period acquisitions under IFRS 3 'Business Combinations', goodwill includes intangibles arising on those acquisitions that are not separately identifiable prior to the date of the change of policy.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceeds the fair value of consideration paid, the excess is credited in full in profit or loss on the acquisition date.

**Other intangible assets - brands**

Purchased brands, which are controlled through custody or legal rights and which could be sold separately from the rest of the business, are capitalised, where fair value can be reliably measured. Where intangible assets are regarded as having a limited useful economic life, the cost is amortised on a straight-line basis over that life. Currently these intangibles are amortised over a period of 3 years in administrative expenses in the Consolidated Income Statement.

**Other intangible assets - contracts**

Where an acquisition is made which contains within it rights to contracted revenue, the present value of the profits inherent in those contracts is capitalised as an intangible asset. This asset is then amortised over the remaining life of those contracts in administrative expenses in the Consolidated Income Statement.

**Impairment**

The group's goodwill and intangible assets are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management controls the related cash flows.

Individual intangible assets or cash-generating units that include goodwill with an indefinite useful life are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

**Revenue**

Revenue represents sales to external customers excluding value added tax. Passenger revenue is recognised when payment is received in cash. Subsidy revenue from local authorities is recognised on an accruals basis, based on actual passenger numbers. Contracted and charter services revenues are recognised when services are delivered, based on agreed contract rates.

## 2. Accounting policies (continued)

**Property, plant and equipment**

Items of property, plant and equipment are initially recognised at cost, which includes both the purchase price and any directly attributable costs. Following initial recognition property, plant and equipment is carried at depreciated cost.

The useful lives and residual values of property, plant and equipment are reviewed at least annually and adjusted, where applicable. When disposed of, property plant and equipment is derecognised. Where an asset continues to be used by the group but is expected to provide reduced or minimal future economic benefits, it is considered to be impaired. Profits and losses on disposal are calculated by comparing the disposal proceeds with the carrying value of the asset, and the resultant gains or losses are included in the consolidated income statement. A gain or loss incurred at the point of derecognition is also included in the consolidated income statement at that point.

Repairs and maintenance are charged to profit or loss in the financial period in which they are incurred. Where probable future economic benefits, in excess of the current standard of performance of the existing asset, are considered to be derived from its major renovation, the cost of that major renovation is added to the carrying value of that asset. Major renovations are then depreciated over the remaining useful life of the asset.

Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment, except freehold land, over their expected useful lives. It is calculated at the following rates:

| | | |
|---|---|---|
| Freehold land | - | Not depreciated |
| Freehold buildings | - | Fifty years straight line |
| Long leasehold property | - | Shorter of the lease term or fifty years straight line |
| Short leasehold property | - | Over the period of the lease |
| Plant and machinery | - | Between ten and four years straight line |
| Public Service Vehicles ("PSVs") | - | Between 10% and 25% per annum on a reducing balance basis |
| Fixtures and fittings | - | Three years straight line |

**Cash and cash equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

**Inventories**

Inventories are initially recognised at cost on a first in first out basis, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

**Mark to market provision and other exceptional costs**

These items are those which the directors consider to be outside of the normal trading transactions of the group or those which hinder understanding of the underlying trading results of the group. They are highlighted separately on the Consolidated Income Statement.

## 2. Accounting policies (continued)

**Taxation**

The charge for current taxation is provided at rates of corporation tax that have been enacted or substantively enacted by the reporting date. Current tax is based on taxable profits for the year and any adjustments to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet method, on all temporary differences which result in an obligation at the reporting date to pay more tax, or a right to pay less tax, at a future date, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Temporary differences arise between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The exceptions, where deferred tax assets are not recognised nor deferred tax liabilities provided, are:

- On initial recognition of goodwill;
- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- Taxable temporary differences associated with investments in subsidiary undertakings where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

**Leased assets**

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to profit or loss over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to profit or loss on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

Where the group enters into sale and leaseback transactions, the accounting treatment depends on the type of lease involved and the economic and commercial substance of the arrangement. Where the group retains the majority of the risks and rewards of ownership of the assets they are accounted for as finance leases and any excess of sales proceeds over the carrying amount of the asset is deferred and amortised over the lease term. Where the group transfers substantially all the risks and rewards of ownership to the lessor they are accounted for as operating leases and any excess of sales proceeds over the carrying value of the asset is recognised in the income statement as a gain on disposal.

Where finance leases or hire purchase agreements are refinanced, amounts received as cash inflows are shown in the cash flow statement as hire purchase refinancing, and cash outflows to settle the original leases are shown as hire purchase settlement payments.

**Self-insurance**

The group's policy is to self-insure high frequency, but low value, claims such as those for traffic accidents and to protect itself against high value claims through an insurance policy issued by a third party subject to an excess. Under this scheme, premiums to obtain the latter insurance are paid to QBE Insurance Limited ("QBE") in respect of each accounting period. These premiums are held by QBE in a trust separate from the assets of the company in order to meet those claims as and when they are settled. The company has no control over the assets of this trust. The administration of high frequency but low value claims is made by a claims handling specialist and the funding of the settlement of these claims is made by the company to the claims handler as and when required.

Provisioning for insurance claims is a major area of estimation in these financial statements and the approach used is described in detail in item (d) of the section on "Estimates" set out above. Claims can be made for a period of up to five years after the accounting period to which they relate. Should a year of insurance be in surplus, no rebate is recognised until the claim period has expired. Should a year of insurance be calculated at any time to be in deficit, an appropriate provision is made. Any provision made is discounted to take account of the expected timing of future payments.

## 2. Accounting policies (continued)

**Pension costs**

Defined contribution schemes

Contributions to the group's defined contribution pension schemes are charged in profit or loss in the year in which they become payable.

Defined benefit pension schemes

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates that have terms to maturity approximating to the terms of the related liability. Appropriate adjustments are made for unrecognised actuarial gains or losses and past service costs. Any actuarial gains and losses are recognised immediately in Other Comprehensive Income. Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that benefits are already vested the group recognises past service cost immediately.

**Financial assets**

The group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The group has not classified any of its financial assets as held to maturity or available for sale.

Loans and receivables: these assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the group will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in profit or loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Financial assets are de-recognised when the contractual rights to the cash flows from the asset expire or when the financial asset and all substantial risks and rewards are transferred.

The group's loans and receivables comprise trade and other receivables in the consolidated statement of financial position.

Financial assets and liabilities include derivative financial instruments held at fair value through profit and loss ("FVTPL"). These assets and liabilities are, if they meet the relevant conditions, designated at FVTPL upon initial recognition. All of the group's derivative financial instruments currently fall into this category. Assets and liabilities in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of these financial assets and liabilities are determined by reference to active market transactions or using a valuation technique where no active market exists.

## 2. Accounting policies (continued)

**Financial liabilities**

The group classifies its financial liabilities in a manner which depends on the purpose for which the liability was acquired:

- Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding;

- Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost, using the effective interest method;

- The group has entered into diesel commodity forward contracts. The agreements do not meet the definitions of hedging transactions under IAS 39 'Financial Instruments: Recognition and Measurement', but are accounted for as a derivative and are recorded at fair value through profit and loss.

A financial liability is de-recognised when it is extinguished, cancelled or it expires. The group has not classified any of its financial liabilities, other than derivatives, at fair value through profit or loss.

**Equity**

Share capital is determined using the nominal value of shares that have been issued. Premiums received on the initial issuing of share capital are credited to the share premium reserve. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits. Retained earnings include all current and prior period results.

The merger reserve represents the difference between the issue price and the nominal value of shares issued as consideration for the acquisition of a subsidiary undertaking.

**Share based payments**

Where share options are awarded to employees, the fair value of the options at the date of grant is charged in profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market and non-market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged in profit or loss over the remaining vesting period. A decrease in fair value is not recognised.

**Dividends**

Dividend distributions to the company's shareholders are recognised as a liability in the group's financial statements on the date when dividends are approved by the company's shareholders. Interim dividends are recognised on the date that they are paid.

**Segmental reporting**

IFRS 8 requires the identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker ("CODM"). The CODM has been determined to be the executive directors.

The group has three main revenue streams: contracted, commercial and charter. All operate within a single operating segment, that of the provision of bus services. The activities of each revenue stream are as described in the Chairman's Statement.

## 3. Changes in accounting standards and interpretations

The adoption of the following accounting standards, amendments and interpretations in the current year has not had a material impact on the group's financial statements.

| | **EU effective date: Periods beginning on or after** |
|---|---|
| Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative | 1 January 2017 |
| IAS 12 Income Taxes: Amendment in relation to the recognition of deferred tax assets for unrealised losses | 1 January 2017 |
| Annual Improvements to IFRSs (2014 - 2016): Clarification of the scope of IFRS 12 Disclosure of Interests in Other Entities | 1 January 2017 |

The adoption of the following standards, amendments and interpretations (including IFRS 9 and 15) in future years is not expected to have a material impact on the group's financial statements.

The group is continuing to assess the impact that adopting IFRS 16 will have on future financial statements, and therefore the full effect is yet to be determined.

| | **EU effective date: Periods beginning on or after** | **IASB effective date: Periods beginning on or after** |
|---|---|---|
| Amendments to IAS 40 Investment Property: Transfer of Investment Property | 1 January 2018 | 1 January 2018 |
| Amendments to IFRS 2 Share-based Payment: Classification and measurement of Share-based payment transactions | 1 January 2018 | 1 January 2018 |
| Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 1 January 2018 | 1 January 2018 |
| IFRS 9 Financial Instruments | 1 January 2018 | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 | 1 January 2018 |
| Clarifications to IFRS 15 Revenue from Contracts with Customers | 1 January 2018 | 1 January 2018 |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 | 1 January 2018 |
| Annual Improvements to IFRSs (2014 - 2016) | 1 January 2018 | 1 January 2018 |
| Annual Improvements to IFRSs (2015 - 2017) | 1 January 2019†** | 1 January 2019 |
| Amendments to IAS 19 Employee Benefits: Plan amendment, curtailment or settlement | 1 January 2019†** | 1 January 2019 |
| Amendment to IAS 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures | 1 January 2019†** | 1 January 2019 |
| Amendments to IFRS 9 Financial Instruments: Prepayment features with negative compensation | 1 January 2019 | 1 January 2019 |
| IFRS 16 Leases | 1 January 2019 | 1 January 2019 |
| IFRIC 23 Uncertainty over Income Tax Treatments | 1 January 2019 | 1 January 2019 |
| Amendments to References to the Conceptual Framework in IFRS Standards | 1 January 2020†* | 1 January 2020 |
| Amendment to IFRS 3 Business Combinations | 1 January 2020†* | 1 January 2020 |
| Amendments to IAS 1 and IAS 8: Definition of Material | 1 January 2020†* | 1 January 2020 |
| IFRS 17 Insurance Contracts | † | 1 January 2021 |

Standards, amendments and interpretations cannot be adopted in the EU until they have been EU-endorsed.

† Pending endorsement *Expected to be endorsed by the IASB effective date. **Not expected to be endorsed by the IASB effective date.

## 4. Segmental analysis and revenue

All of the activities of the group are conducted in the United Kingdom within the operating segment of provision of bus services. Management monitors revenue across the following streams: contracted, commercial and charter:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Commercial | 38,865 | 31,193 |
| Contracted | 21,620 | 18,643 |
| Charter | 1,923 | 2,789 |
| Total Revenue | 62,408 | 52,625 |

The group consists of a number of operational depots arranged around and reliant on a central core, in concept a hub and spoke arrangement. All the services that the group performs are similar and most depots in the group deliver services in each of the three sub-headings set out above. Furthermore, as a matter of management practice, the business of the group is managed by contract (for Contracted Revenue) or by route (for Commercial Revenue) or in certain circumstances by both contract and route, depending on the type of business. Charter business is typically delivered by short term contracts.

Contracted and Charter Services are usually delivered against an agreed service level agreement. Detailed costs for that individual contract are monitored against those modelled in the original bid calculation. Management then takes appropriate action to correct variances as necessary whilst maintaining the agreed level of service.

In Commercial Business, where the revenue is variable and derived from passengers, individual routes are constantly monitored for loadings and revenues and trends in passenger revenues and loadings. Passenger loadings are analysed, often by fare stage, to establish usage and appropriate routes. In concert with margin analysis, individual frequencies and routes are adjusted to maximise revenue yields.

In certain parts of the business revenues can be derived from a complex combination of a variable passenger revenue underpinned by a fixed revenue base delivered by contract. These types of service are managed by individual contract and route and so require a combination of management techniques and analyses to ensure that loadings and revenues are maximised whilst delivery to the service agreement is maintained.

In these circumstances it is impractical to allocate local and central overhead to individual routes and contracts. Costs and Operating Profits by revenue stream are therefore not calculated. By the very nature of the business the operating assets are also interchangeable and the vehicles used in particular localities or on specific routes are frequently changed. Thus it is also not practicable to calculate figures for revenue stream assets. Other information such as capital expenditure, depreciation and impairment is also not analysed separately for this reason.

In 2018 and 2017 no customer constituted more than 10% of Revenues.

## 5. Staff costs

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Staff costs (including directors) comprise: | | |
| Wages and salaries | 33,088 | 29,824 |
| Employer's national insurance contributions | 3,203 | 2,727 |
| Defined contribution pension costs | 522 | 348 |
| | 36,813 | 32,899 |
| Share-based payment expense | 3 | 20 |
| | 36,816 | 32,919 |

The average number of employees, including directors, during the year was as follows:

| | 2018<br>Number | 2017<br>Number |
|---|---|---|
| Management and administrative | 85 | 82 |
| Direct | 1,396 | 1,282 |
| | 1,481 | 1,364 |

## 6. Directors' and key management personnel remuneration

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Salaries and other short term employee benefits | 710 | 562 |
| Social security costs | 67 | 48 |
| Contribution to defined contribution pension scheme (note 24) | 15 | 12 |
| Share based payment expense | - | 11 |
| | 792 | 633 |

One director (2017: 1) is a member of the group's defined contribution pension scheme.

Emoluments of the highest paid director were £284,000 (2017: £206,000). Pension contributions of £14,725 (2017: £11,817) were made on his behalf.

## 6. Directors' and key management personnel remuneration (continued)

The directors' remuneration was as follows:

| | 2018 £'000 | | | | 2017 £'000 | | | |
|---|---|---|---|---|---|---|---|---|
| | Remuneration | Share based payment expense | Pension | Total | Remuneration | Share based payment expense | Pension | Total |
| Executive | | | | | | | | |
| S L Dunn | 284 | - | 15 | 299 | 206 | 5 | 12 | 223 |
| R A Dunn | 168 | - | - | 168 | 131 | 4 | - | 135 |
| K M Taylor | 106 | - | - | 106 | 100 | 2 | - | 102 |
| Non- Executive | | | | | | | | |
| J H Gunn | 80 | - | - | 80 | 80 | - | - | 80 |
| G M Spooner | 40 | - | - | 40 | 35 | - | - | 35 |
| G F Peacock | 32 | - | - | 32 | 10 | - | - | 10 |
| | 710 | - | 15 | 725 | 562 | 11 | 12 | 585 |

The services of John Gunn and certain of those of Robert Dunn are provided respectively by Wengen Limited, and motorBus Limited under contracts with those companies.

The board considers the directors of the company to be the key management personnel of the group.

## 7. Profit from operations

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| This is arrived at after charging/(crediting): | | |
| Depreciation of property, plant and equipment | 3,391 | 3,274 |
| Amortisation of contract intangibles | 450 | 19 |
| Operating lease expense: | | |
| - property | 530 | 554 |
| - plant and machinery | 1,717 | 1,896 |
| Profit on disposal of property, plant and equipment | (172) | (446) |
| Auditor's fees: | | |
| - audit of the parent company and the group | 43 | 40 |
| - audit of the accounts of subsidiaries | 10 | 10 |
| - other non-audit services | - | - |

## 8. Finance expense

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Bank borrowings and overdraft interest | 913 | 697 |
| Hire purchase contracts | 589 | 525 |
| Net finance costs on pension scheme (note 24) | 6 | 17 |
| Other interest | 23 | 25 |
| | 1,531 | 1,264 |

## 9. Exceptional items within profit before taxation

Profit before taxation includes the following mark to market provisions and other exceptional items:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Mark to market profit on fuel derivatives (note 30) | 475 | 162 |
| Acquisition costs | (64) | (47) |
| Abortive transaction costs | (99) | - |
| Redundancy costs and costs of integration of acquisitions | (394) | (337) |
| Costs of change of principal bankers | (45) | (58) |
| Amortisation of intangible assets | (450) | (19) |
| Share based payment expense | (3) | (20) |
| Revenue debtor written off (see note below) | - | (477) |
| (Loss)/profit within profit before taxation | (580) | (796) |

As a result of its acquisition of Green Triangle Buses Limited (now renamed Diamond Bus (North West) Limited) in 2015, the group inherited a long standing dispute over the correct rate of concessionary fare re-imbursement. This dispute has now been amicably resolved but part of the settlement terms affected the pre-acquisition element of the revenue in question. Had the resolution of the dispute occurred before the end of the 2016 accounting year, the settlement of the dispute would have been reflected in a corresponding increase in positive goodwill arising on consolidation. However, since that window of adjustment was no longer available, the item was written off to the profit and loss account.

## 10. Tax expense

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Current tax | | |
| Current tax on profits for the year | - | - |
| Total current tax | - | - |
| Deferred tax | | |
| Origination and reversal of temporary differences | 749 | 505 |
| Prior year adjustments | 58 | (96) |
| Change in rate of tax | - | - |
| Total deferred tax | 807 | 409 |
| Income tax expense | 807 | 409 |

The tax assessed for the year is different to the standard rate of corporation tax in the U.K. for the following reasons:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Profit before taxation | 3,650 | 2,795 |
| Profit at the standard rate of corporation tax in the UK of 18% (2017: 19%) | 657 | 531 |
| Non-taxable items | 92 | (2) |
| Adjustments in respect of prior periods | 58 | (96) |
| Impact of changes in tax rates | - | (24) |
| Total tax expense | 807 | 409 |

The main rate of corporation tax will fall further to 17% from 1 April 2020 (a change which has been substantively enacted).

Deferred tax has been measured at the average tax rates that are expected to apply in the accounting periods in which the timing differences are expected to reverse, based on the tax rates and laws which have been enacted or substantively enacted at the balance sheet date.

## 11. Discontinued operations

The results of the discontinued operation and the result recognised on the re-measurement of the assets of the business disposed of are as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Revenue | 2,382 | 5,281 |
| Cost of sales | (2,508) | (4,968) |
| Gross profit | (126) | 313 |
| Administrative expenses | (261) | (689) |
| Loss before taxation | (387) | (376) |
| Tax credit | 70 | 71 |
| Loss after tax | (317) | (305) |
| Impairment (net of a tax credit of £48,000) recognised on the re-measurement of the assets of the disposed business | (217) | - |
| Loss for the year from the discontinued operation | (534) | (305) |

As described fully in the Chairman's Statement the decision was taken during the year to cease operations in the South West.

**Cash Flows**

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Operating cash flows | (309) | 6 |
| Investing cash flows | 242 | (83) |
| Financing cash flows | - | - |
| Total cash flows | (67) | (77) |

## 12. Earnings per share

### (a) Basic earnings per share

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Basic total: | | |
| Profit attributable to ordinary shareholders | 2,309 | 2,081 |
| Weighted average number of ordinary shares | 48,026,580 | 44,001,465 |
| Basic earnings per share | 4.81p | 4.73p |

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Basic - continuing operations: | | |
| Profit attributable to ordinary shareholders | 2,843 | 2,386 |
| Weighted average number of ordinary shares | 48,026,580 | 44,001,465 |
| Basic earnings per share | 5.92p | 5.42p |

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Basic - discontinued operations: | | |
| Loss attributable to ordinary shareholders | (534) | (305) |
| Weighted average number of ordinary shares | 48,026,580 | 44,001,465 |
| Basic loss per share | (1.11)p | (0.69)p |

The calculation of the basic earnings per share is based on the earnings attributable to the ordinary shareholders divided by the weighted average number of shares in issue during the year.

## 12. Earnings per share (continued)

**(b) Diluted earnings per share**

| | 2018<br>Diluted<br>£'000 | 2017<br>Diluted<br>£'000 |
|---|---|---|
| Diluted total: | | |
| Profit attributable to ordinary share holders | 2,309 | 2,081 |
| Profit for the purposes of diluted earnings per share | 2,309 | 2,081 |
| Weighted average number of shares in issue | 48,026,580 | 44,001,465 |
| Adjustment for exercise of options | - | 111,164 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 48,026,580 | 44,112,629 |
| Diluted earnings per share | 4.81p | 4.72p |

In order to arrive at the diluted earnings per share, the weighted average number of ordinary shares has been adjusted on the assumption of conversion of all dilutive potential ordinary shares. The potential ordinary shares take the form of share options. A calculation has been carried out to determine the number of shares, at the average annual market price of the company's shares, which could have been acquired, based on the monetary value of the rights attached to those shares. This number has then been subtracted from the number of shares that could be issued on the assumption of full exercise of the outstanding options, in order to compute the necessary adjustments in the above table.

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Diluted basic - continuing operations | | |
| Profit attributable to ordinary shareholders | 2,843 | 2,386 |
| Weighted average number of ordinary shares (as above) | 48,026,580 | 44,112,629 |
| Basic earnings per share | 5.92p | 5.41p |

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Diluted basic - discontinued operations: | | |
| Loss attributable to ordinary shareholders | (534) | (305) |
| Weighted average number of ordinary shares (as above) | 48,026,580 | 44,112,629 |
| Basic loss per share | (1.11)p | (0.69)p |

## 12. Earnings per share (continued)

**(c) Adjusted basic earnings per share (adjusted before mark to market provision and other exceptional items):**

| | **2018** £'000 | **2017** £'000 |
|---|---|---|
| Adjusted basic total: | | |
| Profit attributable to ordinary shareholders | 3,469 | 2,925 |
| Weighted average number of ordinary shares | 48,026,580 | 44,001,465 |
| Basic earnings per share | 7.22p | 6.65p |

The calculation of the adjusted basic earnings per share is based on the earnings attributable to the ordinary shareholders divided by the weighted average number of shares in issue during the year.

| | **2018** Diluted £'000 | **2017** Diluted £'000 |
|---|---|---|
| Adjusted diluted total: | | |
| Profit attributable to ordinary share holders | 3,469 | 2,925 |
| Profit for the purposes of diluted earnings per share | 3,469 | 2,925 |
| Weighted average number of shares in issue | 48,026,580 | 44,001,465 |
| Adjustment for exercise of options | - | 111,164 |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 48,026,580 | 44,112,629 |
| Adjusted diluted earnings per share | 7.22p | 6.63p |

In order to arrive at the diluted earnings per share, the weighted average number of ordinary shares has been adjusted on the assumption of conversion of all dilutive potential ordinary shares. The potential ordinary shares take the form of share options. A calculation has been carried out to determine the number of shares, at the average annual market price of the company's shares, which could have been acquired, based on the monetary value of the rights attached to those shares. This number has then been subtracted from the number of shares that could be issued on the assumption of full exercise of the outstanding options, in order to compute the necessary adjustments in the above table.

## 13. Property, plant and equipment

| | Freehold land and buildings £'000 | Long and short leasehold property £'000 | Plant and machinery £'000 | Public service vehicles £'000 | Fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 December 2016 | 7,351 | 1,084 | 3,484 | 42,837 | 188 | 54,944 |
| Acquisitions | 585 | - | 30 | 1,192 | 15 | 1,822 |
| Additions | 14 | 4 | 1,254 | 3,302 | 12 | 4,586 |
| Disposals | (270) | - | (69) | (1,678) | (26) | (2,043) |
| At 30 November 2017 | 7,680 | 1,088 | 4,699 | 45,653 | 189 | 59,309 |
| Acquisition | - | - | 20 | 1,463 | - | 1,483 |
| Additions | 375 | 1 | 897 | 5,638 | 28 | 6,939 |
| Disposals | (2,032) | - | (542) | (1,800) | (62) | (4,436) |
| Transfers | (5) | (4) | 9 | - | - | - |
| At 30 November 2018 | 6,018 | 1,085 | 5,083 | 50,954 | 155 | 63,295 |
| Depreciation: | | | | | | |
| At 1 December 2016 | 364 | 201 | 1,271 | 18,143 | 89 | 20,068 |
| Charge for the year | 62 | 29 | 284 | 2,880 | 19 | 3,274 |
| Acquisitions | 35 | - | 30 | 450 | 15 | 530 |
| Disposals | (35) | - | (69) | (1,358) | (26) | (1,488) |
| At 30 November 2017 | 426 | 230 | 1,516 | 20,115 | 97 | 22,384 |
| Charge for the year | 66 | 29 | 369 | 2,908 | 19 | 3,391 |
| Disposals | (248) | - | (344) | (1,279) | (53) | (1,924) |
| At 30 November 2018 | 244 | 259 | 1,541 | 21,744 | 63 | 23,851 |
| Net book value: | | | | | | |
| At 30 November 2018 | 5,774 | 826 | 3,542 | 29,210 | 92 | 39,444 |
| At 30 November 2017 | 7,254 | 858 | 3,183 | 25,538 | 92 | 36,925 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net book value held under hire purchase agreements : | | | | | | |
| At 30 November 2018 | - | - | 990 | 16,103 | - | 17,093 |
| At 30 November 2017 | - | - | 1,026 | 15,521 | - | 16,547 |
| Depreciation charged thereon : | | | | | | |
| In 2018 | - | - | 66 | 1,301 | - | 1,367 |
| In 2017 | - | - | 15 | 1,965 | - | 1,980 |

## 14. Goodwill and other intangible assets

| | Purchased brands £'000 | Contracts £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|---|
| Cost: | | | | |
| At 1 December 2016 | 250 | 312 | 12,033 | 12,595 |
| Additions | - | 877 | 1,868 | 2,745 |
| At 30 November 2017 | 250 | 1,189 | 13,901 | 15,340 |
| Additions | - | 432 | 135 | 567 |
| **At 30 November 2018** | **250** | **1,621** | **14,036** | **15,907** |
| Amortisation: | | | | |
| At 1 December 2016 | 250 | 312 | - | 562 |
| Charge for the year | - | 19 | - | 19 |
| **At 30 November 2017** | **250** | **331** | **-** | **581** |
| Charge for the year | - | 450 | - | 450 |
| **At 30 November 2018** | **250** | **781** | **-** | **1,031** |
| **Net book value** | | | | |
| **At 30 November 2018** | **-** | **840** | **14,036** | **14,876** |
| **At 30 November 2017** | **-** | **858** | **13,901** | **14,759** |

## 15. Goodwill and impairment

The group consists of a number of operational depots arranged around and reliant on a central core, in concept a hub and spoke arrangement. The complex matrix of management of the group's business is set out in detail in note 4 to these financial statements. In summary, the group's businesses are managed at their lowest levels by contract and by bus route, or sometimes by both methods. They are not managed by revenue stream. Moreover the manner in which the group has expanded, with the addition, integration and transformation of a number of businesses and entities, has obscured the formal breakdown of the total amount of goodwill. The directors consider that, in the light of these factors, the group's business represents a single cash generating unit for the purposes of evaluating the carrying value of goodwill. Accordingly, the evaluation calculations have been carried out on this basis.

## 15. Goodwill and impairment (continued)

The recoverable amount of the goodwill of the business has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a two year period to 30 November 2020. Major assumptions are as follows:

| | CGU 2018 % | CGU 2017 % |
|---|---|---|
| Discount rate | 12 | 12 |
| Operating margin | 8 | 8 |
| Long term growth rate | 2 | 2 |
| Inflation | 3 | 3 |

Operating margins have been based on past experience and future expectations in the light of anticipated economic and market conditions. Discount rates are based on the group's weighted average cost of capital. Growth rates, beyond the first two years, are based on management estimates and on the historic achievements of the group. This rate does not exceed the average long term growth rate for the relevant markets. Inflation has been based on management's expectation given historic trends. After applying sensitivity analysis in respect of the results and future cash flows, in particular for presumed growth rates and discount rates, management is satisfied that it is highly improbable that there would be such change in a key assumption that it would reduce recoverable amount to below book value.

## 16. Inventories

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Fuel, tyres and spares | 3,525 | 2,526 |

There is no material difference between the replacement cost of stocks and the amounts stated above.

The amount of inventories recognised as an expense during the year was £15,181,000 (2017: £13,575,000). No inventory has been written down to fair value in 2018 or 2017 and therefore no associated expense was incurred.

## 17. Trade and other receivables

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade receivables | 2,871 | 3,693 |
| Tax and social security | 410 | 369 |
| Prepayments and accrued income | 12,614 | 9,584 |
| | **15,895** | **13,646** |

## 17. Trade and other receivables (continued)

The carrying values of trade and other receivables are considered to be a reasonable approximation of fair value. The effect of discounting trade and other receivables has been assessed and is deemed to be immaterial to the results.

In 2018 and 2017 all trade and other receivables have been reviewed for indicators of impairment. No provision was created.

In addition, some of the unimpaired trade receivables are past due as at the reporting date. The ages of trade receivables past due but not impaired are as follows:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Not more than 3 months overdue | 155 | 16 |
| More than 3 months but not more than 1 year | 286 | 207 |
| | 441 | 223 |

Movements in the group trade receivables provision in the year are as follows:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Balance brought forward at 1 December | - | - |
| Provided | - | - |
| Released | - | - |
| Balance carried forward at 30 November | - | - |

## 18. Cash and cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement are analysed as follows

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Cash at bank | 446 | 627 |
| Bank Overdraft (note 20) | (677) | (2,326) |
| | (231) | (1,699) |

## 19. Trade and other payables - current

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Trade payables | 4,432 | 3,999 |
| Taxation and social security | 1,080 | 820 |
| Other creditors | 184 | 1,106 |
| Accruals and deferred income | 769 | 552 |
| | 6,465 | 6,477 |

The directors consider that the carrying amount of trade and other payables approximates to their fair value. The effect of discounting trade and other payables has been assessed and is deemed to be immaterial to the group's results.

## 20. Loans and borrowings

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Current: | | |
| Overdrafts | 677 | 2,326 |
| Bank loans | 13,153 | 13,952 |
| | 13,830 | 16,278 |
| Non-current | | |
| Bank loans | 4,068 | - |
| | 17,898 | 16,278 |

## 20. Loans and borrowings (continued)

**Analysis of maturity**

| | 2018 £'000 Bank loans and overdrafts | 2018 £'000 Obligations under hire purchase | 2018 £'000 Trade and other payables | 2018 £'000 Total |
|---|---|---|---|---|
| In one year or less or on demand | 14,182 | 4,333 | 4,616 | 23,131 |
| In more than one year but not more than two years | 481 | 3,456 | - | 3,937 |
| In more than two years but not more than five years | 3,980 | 6,206 | - | 10,186 |
| Later than five years | - | 1,276 | - | 1,276 |
| | 18,643 | 15,271 | 4,616 | 38,530 |

| | 2017 £'000 Bank loans and overdrafts | 2017 £'000 Obligations under hire purchase | 2017 £'000 Trade and other payables | 2017 £'000 Total |
|---|---|---|---|---|
| In one year or less or on demand | 16,568 | 3,590 | 5,105 | 25,263 |
| In more than one year but not more than two years | - | 3,249 | - | 3,249 |
| In more than two years but not more than five years | - | 5,098 | - | 5,098 |
| Later than five years | - | 619 | - | 619 |
| | 16,568 | 12,556 | 5,105 | 34,229 |

The analysis above represents minimum payments on an undiscounted basis.

**Bank borrowings**

On 5 December 2017 the group engaged HSBC Bank plc as its principal bankers and all the group's facilities were transferred to that bank. This new Senior Facilities Agreement provides for a revolving facility of up to £15.5 million and a mortgage facility of £5.5 million, with a corresponding overdraft facility of up to £3.5 million. The group entered into a cross-guarantee and floating charge agreement on that same date covering these facilities. The facilities expire on 5 December 2021 but are renewable at that date.

The bank loans are secured on the group's freehold property. The annual mortgage repayments are calculated such that the mortgage facilities amortise in a straight line over a term of 20 years which is considered to give a reasonable approximation to the effective interest rate.

## 21. Obligations under hire purchase contracts

Future lease payments are due as follows:

| | 2018<br>£'000<br>Minimum lease payments | 2018<br>£'000<br>Interest | 2018<br>£'000<br>Present value |
|---|---|---|---|
| Not later than one year | 4,333 | 490 | 3,843 |
| More than one but less than two years | 3,456 | 336 | 3,120 |
| More than two but less than five years | 6,206 | 407 | 5,799 |
| Later than five years | 1,276 | 36 | 1,240 |
| | 15,271 | 1,269 | 14,002 |

| | 2017<br>£'000<br>Minimum lease payments | 2017<br>£'000<br>Interest | 2017<br>£'000<br>Present value |
|---|---|---|---|
| Not later than one year | 3,590 | 432 | 3,158 |
| More than one but less than two years | 3,249 | 287 | 2,962 |
| More than two but less than five years | 5,098 | 306 | 4,792 |
| Later than five years | 619 | 16 | 603 |
| | 12,556 | 1,041 | 11,515 |

The present values of future lease payments are analysed as:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Current liabilities | 3,843 | 3,158 |
| Non-current liabilities | 10,159 | 8,357 |
| | 14,002 | 11,515 |

It is the group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3 years. For the year ended 30 November 2018, the average effective borrowing rate was 4.5 per cent (2017: 4.5 per cent). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in sterling.

The group's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 20.

## 22. Derivative financial instruments

Derivative financial instruments are analysed as follows (see also note 30):

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Current assets | 95 | 450 |
| Current liabilities | (132) | - |
| (Liability)/asset | (37) | 450 |

Financial assets at fair value through profit or loss are presented within Operating Activities and therefore form part of changes in working capital in the statement of cash flows.

The fair value of the commodity forward contracts is determined in accordance with the procedure described in note 30.

## 23. Provision for liabilities

| | Insurance claims provision<br>£'000 |
|---|---|
| At 1 December 2017 | 1,203 |
| Utilised | (463) |
| Balance at 30 November 2018 | 740 |

**Insurance claims provision**

As set out in note 2 to these financial statements, the policy of the group is to self-insure high frequency, but low value, claims such as those for traffic accidents and to protect itself against high value claims through an insurance policy issued by a third party subject to an excess. At the end of the 2016 accounting period responsibility for the administration of new claims passed to a third party claims handling specialist and QBE retained responsibility for settling all claims made up to 30 November 2016. At the same time QBE returned £1.3 million in cash to the company out of the trust fund which it held to settle claims made against the group, but the company assumed responsibility for funding those claims when they were settled.

In addition to the provision set out above, in order to meet claims as and when they are settled, QBE at 30 November 2018 retained a further £300,000 in cash (2017: £300,000). These funds are held in a trust account separate from the assets of the company. The company has no control over this trust account and accordingly does not recognise it as an asset.

As at 30 November 2017 and 2018 it is considered by the company that the provision held is sufficient to meet the settlement responsibility which falls on the company at those dates. Although the form of the manner in which insurance claims are made against the company and settled by the company has therefore changed, the substance has not changed and the accounting policy remains the same as in previous accounting periods.

Given the length of time which can elapse in dealing with insurance claims, it is probable that the above provision will be utilised gradually over the five year period in which claims can be made. Claims experience in the future will dictate the extent to which additions to the provision may be required and the extent of its utilisation in any accounting period.

## 24. Pensions

Group companies operate defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The pension charge amounted to £522,000 (2017: £348,000). Contributions amounting to £57,570 (2017: £44,979) were payable to the funds at the balance sheet date.

Another group company operates a defined benefit pension scheme within the West Midlands Integrated Transport Authority Pension Fund ("WMITAPF"), governed by the Local Government Pension Regulations ("LGPR"). The administering authority for the Fund is the West Midlands Combined Authority. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority.

The group accounts for pensions in accordance with IAS 19 "Employee Benefits". Contributions amounting to £27,083 (2017: £27,083) were payable to the fund at the balance sheet date. Expected contributions for the year ending 30 November 2019 are £129,000.

The plan exposes the group to actuarial risks such as interest rate risk, investment risk, longevity risk and inflation risk.

**Interest rate risk**

The present value of the defined benefit liability is calculated using a discount rate determined by reference to market yields of high quality corporate bonds. The estimated term of the bonds is consistent with the estimated term of the defined benefit obligation and is denominated in sterling. A decrease in market yield on high quality corporate bonds will increase the group's defined benefit liability, although it is expected that this would be offset partially by an increase in the fair value of certain of the plan assets.

**Investment risk**

The plan assets at 30 November 2018 are predominantly in equities and bonds. The equities are largely invested in a spread of UK, North American, European and Asian equities. This is considered to form a good spread of risk.

**Longevity risk**

The group is required to provide benefits for life for the members of the defined benefit pension scheme. An increase in the life expectancy of members will increase the defined benefits liability.

**Inflation risk**

A significant proportion of the defined benefits liability is linked to inflation. An increase in the inflation rate will increase the group's liability.

The weighted average duration of the defined benefit obligation at 30 November 2018 is 13 years (2017: 12 years).

**WMITAPF defined benefit pension scheme**

The calculations of the IAS 19 disclosures for the WMITAPF have been based on the most recent actuarial valuations, which have been updated to 30 November 2018 by an independent professionally qualified actuary to take account of the requirements of IAS 19.

The principal actuarial assumptions used were as follows:

| | 30 November **2018** % | 30 November **2017** % |
|---|---|---|
| Rate of increase in salaries | n/a | n/a |
| Rate of increase of pensions in payment | 2.6 | 2.4 |
| Discount rate | 2.9 | 2.3 |
| Inflation | 2.6 | 2.4 |

## 24. Pensions (continued)

The life expectancy assumptions used for the scheme are periodically reviewed and as at 30 November were:

| | 30 November 2018 Years | 30 November 2017 Years |
|---|---|---|
| Current pensioner aged 65 - male | 21.9 | 21.8 |
| Current pensioner aged 65 - female | 24.0 | 23.9 |
| Future pensioners at aged 65 (aged 45 now) - male | 24.1 | 24.0 |
| Future pensioners at aged 65 (aged 45 now) - female | 26.3 | 26.2 |

Since the scheme has been closed for a number of years, there is no current service cost to be charged to operating profits.

| | Change in assumption | Impact on overall liability |
|---|---|---|
| Discount rate | Increase/decrease by 0.1% | Increase/decrease of 1.1% |
| Inflation | Increase/decrease by 0.1% | Increase/decrease of 1.2% |
| Life expectancy | Increase by 1 year | Increase of 4.4% |

The above analysis is based on a change in an assumption whilst holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. The sensitivity of the defined benefit obligation to significant actuarial assumptions has been estimated, based on the average age and the normal retirement age of members and the duration of the liabilities of the scheme.

The amounts recognised in the statement of financial position were determined as follows:

| | 30 November 2018 £'000 | 30 November 2017 £'000 |
|---|---|---|
| Equities | 4,872 | 4,810 |
| Bonds | 9,247 | 10,039 |
| Other | 4,413 | 4,429 |
| Cash | 157 | 143 |
| Total market value of assets | 18,689 | 19,421 |
| Present value of scheme liabilities | (16,952) | (18,527) |
| Pension asset before tax | 1,737 | 894 |
| Asset ceiling restriction | - | (1,321) |
| Remaining certified pension contributions | (129) | - |
| Pension asset/ (liability) after asset ceiling restriction and before tax | 1,608 | (427) |
| Related deferred tax (liability)/asset | (294) | 77 |
| **Net pension asset/(liability)** | **1,314** | **(350)** |

## 24. Pensions (continued)

The equity investments and bonds which are held in plan assets are quoted and are valued at the current bid price.

At 30 November 2017, the LGPR did not offer to employers the facility to recover contributions once paid and consequently an asset ceiling restriction applied. Legislation to allow return of contributions to employers was put in place in May 2018. Therefore from that date no asset ceiling restriction applies.

The last formal actuarial valuation was carried out as at 31 March 2016. In that valuation cycle the contributions certified by the actuary cease with effect from 31 March 2019. The next actuarial valuation will be carried out as at 31 March 2019. As at 31 March 2016 the actuarial deficit of the scheme was £1,000,000. However the actuary regularly rolls forward the actuarial position and, as at the latest available date of 31 December 2018, the actuary estimated that the actuarial surplus was £883,000, equivalent to a funding level of 105% of estimated actuarial liabilities.

The total charge to profit and loss for pensions is as follows:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Administration expense | (5) | (5) |
| Finance cost | | |
| - return on plan assets | 439 | 496 |
| - interest cost on pension liabilities | (445) | (513) |
| **Net finance loss** | **(6)** | **(17)** |
| Total defined benefit loss | (11) | (22) |
| Defined contribution costs | (522) | (348) |
| **Total profit and loss charge** | **(533)** | **(370)** |

Analysis of amount included within the group's statement of total comprehensive income:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Return on assets (less interest) | (525) | 830 |
| Changes in assumptions underlying the present value of the scheme liabilities | 1,081 | 549 |
| Actuarial gain before asset ceiling restriction | 556 | 1,379 |
| Reversal of/ (imposition of) asset ceiling restriction | 1,321 | (1,321) |
| Remaining certified pension contributions | (129) | - |
| Adjusted actuarial gain | 1,748 | 58 |

## 24. Pensions (continued)

Actuarial gains/(losses) as a percentage of scheme assets and liabilities at 30 November 2018 were as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Return on assets as a percentage of scheme assets | (2.8) | 4.3 | 9.0 |
| Total actuarial gain/(loss) recognised in statement of total comprehensive income as a percentage of the present value of scheme liabilities | 10.3 | 0.3 | (4.4) |

The cumulative amount of actuarial gains and losses on defined benefit schemes recognised in the statement of total comprehensive income since 25 January 2011 (the date at which the pension scheme entered the group) is a loss of £281,000 (2017: £2,029,000). The actual return on plan assets was a loss of £86,000 (2017: a gain of £1,326,000).

The movement in deficit during the year under IAS 19 was:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Surplus/(deficit) in scheme at 30 November | 894 | (800) |
| Movement in period | | |
| - Contributions | 298 | 337 |
| - Administrative expenses | (5) | (5) |
| - Actuarial gain due to changes in financial assumptions | 556 | 1,379 |
| - Return on plan assets | 439 | 496 |
| - Interest cost | (445) | (513) |
| Surplus in scheme at the end of the year | 1,737 | 894 |

The movement in assets during the year under IAS 19 is as follows:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| At 30 November | 19,421 | 18,664 |
| Expected return on plan assets | 439 | 496 |
| Actuarial (losses)/gains | (525) | 830 |
| Employer contributions | 298 | 337 |
| Administrative expenses | (5) | (5) |
| Benefits paid | (939) | (901) |
| At end of year | 18,689 | 19,421 |

## 24. Pensions (continued)

The movement in liabilities during the year under IAS 19 is as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| At 30 November | (18,527) | (19,464) |
| Interest cost | (445) | (513) |
| Actuarial gain – changes in assumptions | 1,081 | 549 |
| Benefits paid | 939 | 901 |
| At end of year | (16,952) | (18,527) |

## 25. Deferred taxation

The net deferred tax liability included in the Statement of Financial Position is analysed as follows:

| | Accelerated capital allowances £'000 | Arising on fair value adjustments on acquisitions £'000 | Arising on defined benefit pension scheme £'000 | Arising on derivative financial instruments £'000 | Losses £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| At 1 December 2016 | (1,136) | 107 | 144 | (8) | 438 | (455) |
| Dealt with in the profit and loss account | 291 | (61) | (56) | (73) | (439) | (338) |
| Dealt with in other comprehensive income | - | - | (11) | - | - | (11) |
| Dealt with in business combinations | - | - | - | - | 122 | 122 |
| At 30 November 2017 | (845) | 46 | 77 | (81) | 121 | (682) |
| Dealt with in the profit and loss account | (815) | (11) | (56) | 87 | 108 | (687) |
| Dealt with in other comprehensive income | - | - | (315) | - | - | (315) |
| Dealt with in business combinations | - | - | - | - | (73) | (73) |
| At 30 November 2018 | (1,660) | 35 | (294) | 6 | 156 | (1,757) |

At 30 November 2018 there were £nil (2017: £nil) temporary differences or unused tax losses for which deferred tax has not been provided.

## 26. Share capital

| | Allotted and called up and fully paid | | | |
|---|---|---|---|---|
| | **2018** Number | **2018** £'000 | **2017** Number | **2017** £'000 |
| Ordinary shares of 25p each | 48,880,918 | 12,220 | 48,880,918 | 12,220 |

| Issued Share Capital | Number | Nominal Value £'000 |
|---|---|---|
| As at 30 November 2016 | 43,047,584 | 10,762 |
| 2 August 2017 | 3,333,332 | 833 |
| 18 August 2017 | 2,500,002 | 625 |
| As at 30 November 2017 and 2018 | 48,880,918 | 12,220 |

Share issue costs of £138,000 were incurred in the share issues of 2017 and were charged to the share premium account.

Ordinary shares participate fully in the rights to vote, receive dividends and take part in any distribution of capital. There are no restrictions on ordinary shares nor are there any redeemable shares of any kind.

At 30 November 2018 854,338 ordinary shares were held in treasury (2017: 854,338).

## 27. Share options and warrants

As at 30 November 2018 the following share options had been issued and were outstanding under the company's employee share option schemes:

| Date of grant | Number of options granted | Earliest exercise date | Date of expiry | Exercise price |
|---|---|---|---|---|
| 24 November 2014 | 2,585,000 | 24 November 2017 | 23 November 2024 | 54.00p |
| 17 October 2016 | 303,851 | 1 December 2019 | 1 June 2020 | 58.05p |

The Rotala Plc SAYE Share Option Scheme (the "Scheme") is an HM Revenue & Customs approved share option scheme, administered by the Yorkshire Building Society ("YBS"), open to all employees. The issue of share options on 17 October 2016 is at present the only issue in relation to this Scheme. The Scheme runs for a three year period. Employees will subscribe, through payroll deductions, a monthly sum which will accumulate in their individual savings accounts at YBS. At the end of the three year period the employee will have the option to purchase ordinary shares of 25 pence in the company ("Ordinary Shares") at a price fixed at the start of each three year period. Under the rules of the Scheme, the board is free to price the share option at a discount to the market price of the Ordinary Shares, at the time the option is granted.

The company also operates an unapproved equity-settled share based remuneration scheme for group executive directors and senior management. The individual must remain an employee of the group until the option is exercised and the market price vesting condition must have been met. For the latter purpose the option issue is split into three equal tranches. For a tranche to be exercisable the share price of the company must have reached 65p, 80p and 95p respectively. At the balance sheet date the market price vesting condition had been met only in respect of the first tranche.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Weighted average exercise price (p) | Number | Weighted average exercise price (p) | Number |
| Outstanding at beginning of the year | 53.76 | 3,669,903 | 55.52 | 4,643,210 |
| Forfeited during the year | 58.05 | (126,052) | 58.05 | (73,307) |
| Lapsed during the year | 50.00 | (655,000) | 62.50 | (900,000) |
| **Outstanding at the end of the year** | **54.43** | **2,888,851** | **53.76** | **3,669,903** |

The exercise price of options outstanding at the end of the year ranged between 54.0p and 58.05p (2017: 50.0p and 58.05p) and their weighted average remaining contractual life was 5.53 years (2017: 5.38 years).

Of the outstanding options at the reporting date 861,667 (2017: 1,516,667) were exercisable. The weighted average exercise price of these options was 54.0p (2017: 52.27p).

## 28. Dividends paid and proposed

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Declared and paid in the year | | |
| Ordinary first interim dividend for 2017 of 0.85 pence per share (2017: 0.80 pence) | 408 | 337 |
| Final dividend for 2017 of 1.65 pence per share (2017: second interim dividend of 1.50 pence) | 793 | 633 |
| | 1,201 | 970 |
| Proposed for approval (not recognised as a liability at 30 November) | | |
| Ordinary interim dividend for 2018 of 0.92 pence per share (2017: 0.85 pence) | 442 | 408 |
| Ordinary final dividend for 2018 of 1.78 pence per share (2017: 1.65 pence) | 855 | 793 |
| | 1,297 | 1,201 |

## 29. Commitments under operating leases

The group had total commitments under non-cancellable operating leases as set out below:

| | 2018 £'000 | | 2017 £'000 | |
|---|---|---|---|---|
| | Land and buildings | Other assets | Land and buildings | Other assets |
| Operating lease commitments payable: | | | | |
| Within one year | 532 | 1,227 | 552 | 1,758 |
| In two to five years | 776 | 987 | 1,185 | 2,226 |
| In more than five years | 3,803 | - | 3,303 | - |
| | 5,111 | 2,214 | 5,040 | 3,984 |

Operating lease payments for land and buildings represent principally rentals payable by the group for certain of its depots. Short leases are negotiated for an average term of five years, where rentals are either fixed or increase in line with RPI. There were no lease incentives. Longer term leases range in length from 30 to 99 years. In these cases there are periodic rent reviews at the prevailing market rents.

Operating lease payments for other assets principally represent rentals payable by the group for a part of its vehicle fleet. Leases are negotiated for an average term of five years and rentals are fixed for those years with an option to extend for a further two years at an agreed continuation rate.

## 30. Financial instruments - risk management

The group holds derivative financial instruments to finance its operations and manage its operating risks. The Board agrees and reviews policies and financial instruments for risk management. Financial assets are classified as loans and receivables or designated at fair value through profit and loss ("FVTPL"); financial liabilities are measured at amortised cost or FVTPL.

The principal financial assets and liabilities on which financial risks arise are as follows:

| | 2018<br>£'000<br>Carrying value | 2017<br>£'000<br>Carrying value |
|---|---|---|
| Financial assets - loans and receivables | | |
| Trade and other receivables | 7,800 | 7,663 |
| Cash and cash equivalents | 446 | 627 |
| | 8,246 | 8,290 |
| Financial asset or liability – FVTPL | | |
| Fuel commodity forward derivative contracts - asset | 95 | 450 |
| Fuel commodity forward derivative contracts – liability | 132 | - |
| Financial liabilities - at amortised cost | | |
| Trade and other payables | 5,385 | 5,657 |
| Loans and borrowings | 17,898 | 16,278 |
| | 23,283 | 21,935 |

The group's derivative financial instruments relate to fuel commodity forward contracts which help to mitigate the group's exposure to fluctuations in diesel prices. There are a number of contracts in place at the reporting date. These give the group certainty over a substantial proportion of its projected diesel expenditure up to November 2019.

Financial assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

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

The allocation of the group's financial assets and financial liabilities at fair value is classified as Level 2.

## 30. Financial instruments - risk management (continued)

The group's diesel forward contracts are not traded in active markets. The fair value of the diesel forward contracts has been measured by the contracting entities using inputs obtained from forward pricing curves corresponding to the maturity of the contracts.

The reconciliation of the carrying amounts of financial instruments classified within Level 2 is as follows:

| | 2018<br>£'000 |
|---|---|
| Balance (asset) at 1 December 2017 | 450 |
| Released to exceptional items within operating profit | 475 |
| Receipts on matured instruments | (962) |
| Balance (net liability) at 30 November 2018 | 37 |

Gains or losses related to these financial instruments are recognised within profit from operations in profit or loss and all amounts recognised in the current period relate to financial assets or liabilities held at 30 November 2018.

Changing inputs to Level 2 valuations to reasonably possible alternative assumptions would not change significantly amounts recognised in profit or loss, total assets, total liabilities or total equity.

**Financial risk management**

The principal financial risks to which the group is exposed are liquidity, credit, interest rate, commodity and capital risk. Each of these is managed as set out below. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility.

Liquidity risk

The group has a policy of ensuring that sufficient funds are always available for its operating activities. The Board continually monitors the group's cash requirements, as disclosed in the Strategic Report.

In assessing and managing the liquidity risks of its derivative financial instruments the group considers both contractual inflows and outflows. The contractual cash flows of the group's derivative financial assets and liabilities are as follows:

| | 2018<br>£'000 | | | 2017<br>£'000 | | |
|---|---|---|---|---|---|---|
| | < 6 months | 6-12 months | > 12 months | < 6 months | 6-12 months | > 12 months |
| Cash inflow/(outflow) | 29 | (66) | – | 239 | 211 | - |

## 30. Financial instruments - risk management (continued)

### Interest rate risk

The group seeks to obtain a favourable interest rate on its cash balances through the use of bank treasury deposits.

The interest rate profile of the financial liabilities of the group, all of which are in Sterling, was as follows:

| | 2018 £'000 | | 2017 £'000 | |
|---|---|---|---|---|
| | Financial liabilities on which a floating rate is paid | Financial liabilities on which a fixed rate is paid | Financial liabilities on which a floating rate is paid | Financial liabilities on which a fixed rate is paid |
| UK Sterling | 18,547 | 13,353 | 16,257 | 11,515 |

In the year the group paid interest at a rate of between 2.50% and 3.20% (2017: between 2.85% and 3.50%) on the liabilities subject to floating rates of interest set out above. The financial liabilities set out above subject to fixed rates of interest (fixed for the whole year) were at rates between 2.12% and 8.11% (2017: between 2.11% and 8.68%) in the year. If floating rates of interest changed by 1%, the group's interest expense would not change by a material sum.

### Credit risk

The group is exposed to credit risk on cash and cash equivalents, and trade and other receivables. Cash balances, all held in the UK, are placed with the group's principal bankers. The client base of the group lies mainly in government and semi-government bodies and substantial blue chip organisations. As a result the group rarely needs to carry out credit checks, but does do so if it judges this to be appropriate. Provisions for doubtful debts are established in respect of specific trade and other receivables where it is deemed they are impaired.

### Commodity risk

The group is exposed to risk in the fluctuating price of diesel. It mitigates this risk when it considers it appropriate to do so through entering fixed price purchase contracts and fuel commodity forward derivative contracts.

### Capital risk

The group considers its capital to comprise its ordinary share capital, share premium, other reserves and accumulated retained earnings. The group manages its capital to ensure that entities in the group will be able to continue as going concerns, while maximising the return to shareholders. The board closely monitors current and forecast cash balances to allow the group to maximise returns to shareholders by way of dividends, whilst maintaining suitable amounts of liquid funds to allow continued investment in the group. The group sets the amount of capital in proportion to its overall financing structure, i.e. equity and financial liabilities. The group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. For example, in the past two years the board has undertaken refinancing of debt to optimise the position. In order to maintain or adjust the capital structure, the group may also adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

Capital for the reporting period under review is as follows:

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Share capital | 12,220 | 12,220 |
| Share premium reserve | 11,779 | 11,779 |
| Merger reserve | 2,567 | 2,567 |
| Shares in treasury | (817) | (817) |
| Retained earnings | 9,146 | 6,602 |
| **At end of year** | **34,895** | **32,351** |

## 31. Related parties and transactions

- The services of J H Gunn were provided by Wengen Limited, a company controlled by J H Gunn, and invoiced by that company to Rotala, as set out in note 6. At the year end £nil (2017: £nil) of the amount charged was unpaid and included within creditors. During the year J H Gunn received from Rotala a total of £134,112 (2017: £123,383) in dividends on ordinary shares.

- Certain of the services of R A Dunn were provided by motorBus Limited, a company controlled by R A Dunn, and invoiced by that company to subsidiary undertakings of Rotala, as set out in note 6. At the year end £18,000 (2017: £23,417) of the amount charged was unpaid and included within creditors. During the year R A Dunn received from Rotala a total of £26,276 (2017: £21,434) in dividends on ordinary shares.

- During the year S L Dunn received from Rotala a total of £38,997 (2017: £35,223) in dividends on ordinary shares.

- During the year K M Taylor received from Rotala a total of £14,326 (2017: £13,180) in dividends on ordinary shares.

- During the year G M Spooner received from Rotala a total of £4,550 (2017: £1,150) in dividends on ordinary shares.

- During the year G F Peacock received from Rotala a total of £69,367 (2017: £nil after date of appointment) in dividends on ordinary shares.

- J H Gunn is a director of The 181 Fund Limited ("The Fund"), a company incorporated in Jersey. The Fund held an interest in 1,702,443 ordinary shares of Rotala as at 30 November 2018 (2017: 1,802,443 ordinary shares). Under Jersey law, Mr Gunn, as a non-resident of that state, is unable to exercise his vote at board meetings of The Fund. At 30 November 2018 Mr. Gunn and his beneficial interests held 30% (2017: 30%) of the ordinary share capital of The Fund. During the year The Fund received from Rotala a total of £43,411 (2017: £41,456) in dividends on ordinary shares.

## 32. Acquisitions

**Central Buses**

As set out in the Chairman's Statement, in February 2018 the group acquired the entire bus business of CEN Group Limited. The Chairman's Statement describes the details of and the reasons for the acquisition, and should be consulted for a detailed description of all the relevant factors. The consideration for the acquisition (excluding acquisition costs) was £1,950,000 in cash. The book values of the assets acquired are set out below.

| | Book value £'000 | Fair value adjustment £'000 | Fair value on acquisition £'000 |
|---|---|---|---|
| Fixed assets | | | |
| Vehicles | 1,742 | (280) | 1,462 |
| Plant and equipment | 20 | - | 20 |
| Customer contracts | - | 432 | 432 |
| Total fixed assets | 1,762 | 152 | 1,914 |
| Current liabilities | | | |
| Other payables and accruals | - | (27) | (27) |
| | - | (27) | (27) |
| Net assets | | | 1,887 |
| Goodwill | | | 63 |
| Acquisition costs (note 9) | | | 64 |
| Total cash consideration paid | | | 2,014 |

Because the acquired business was immediately folded into the existing operations of the group in the relevant localities, it is not possible to distinguish revenues and profits for the acquired business in the period to 30 November 2018. Pre-acquisition book values were determined based on applicable IFRS, immediately prior to the acquisition. The values of assets recognised on acquisition are their estimated fair values. For the vehicles acquired this is based on the directors' assessment of the age and condition of each of the vehicles and their knowledge of disposal values for equivalent vehicles.

The directors engaged Crowe Clark Whitehill LLP ("CCW") to make an assessment of the values of the intangible assets acquired with the business. Principally this involved an assessment of the value of the intangible asset attributable to the contracts inherited with this business. The values estimated by CCW are reflected in the above table.

The directors do not consider that the brand name has any separable value. No licenses were acquired with the business. The sale and purchase agreement includes standard non-compete clauses; however, the seller had no intention of re-entering the respective markets at the acquisition date and so there could be no value attributable to these clauses. The goodwill generated by the acquisition arose from the benefit of synergies with the existing businesses of the group in their respective locations. As stated above the business acquired included a vehicle fleet and these vehicles were immediately subsumed into existing operations following acquisition. The acquisition expenses incurred by the group amounted to £64,000 and have been expensed in the Consolidated Income Statement in Administrative Expenses.

## 33. Capital commitments

As at 30 November 2018 the group had capital commitments for vehicles on order amounting to £2,283,000 (2017: no capital commitments).

## 34. Post balance sheet events

There were no material post balance sheet events.

## 35. Audit exemption for subsidiary undertakings

For the year ended 30 November 2018, the group has taken advantage of the exemption offered in sections 479A – 479C of the Companies Act 2006 and, with the exception of Preston Bus Limited, its subsidiary undertakings have not been subject to an individual annual audit. Rotala Plc has given a statutory guarantee to each of these subsidiary undertakings guaranteeing their liabilities, a copy of which will be filed at Companies House.

The companies which have taken this exemption are as follows:

| Name | Company number |
|---|---|
| Wessex Bus Limited | 4327651 |
| Shady Lane Property Limited | 3506681 |
| Diamond Bus Limited | 2531054 |
| Hallmark Connections Limited | 4390228 |
| Hallbridge Way Property Limited | 6504654 |
| Diamond Bus (North West) Limited | 3037228 |
| Diamond Bus Company Holding Limited | 6504657 |

# Company Statement of Financial Position

## As at 30 November 2018

| | Note | 2018 £'000 | 2017 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 4 | 32,126 | 32,126 |
| Tangible assets | 5 | 198 | 226 |
| | | 32,324 | 32,352 |
| **Current assets** | | | |
| Debtors | 6 | 20,486 | 16,106 |
| Cash and cash equivalents | | - | 1 |
| | | 20,486 | 16,107 |
| Creditors: amounts falling due within one year | 7 | (14,782) | (16,183) |
| Net current assets/(liabilities) | | 5,704 | (76) |
| Total assets less current liabilities | | 38,028 | 32,276 |
| Creditors: amounts falling due after more than one year | 8 | (4,068) | - |
| Deferred taxation | 9 | - | (49) |
| Provisions for liabilities | 10 | (740) | (1,203) |
| Net assets | | 33,220 | 31,024 |
| **Capital and reserves** | | | |
| Share capital | 11 | 12,220 | 12,220 |
| Share premium account | 13 | 11,779 | 11,779 |
| Shares in treasury | 13 | (817) | (817) |
| Retained earnings | 13 | 10,038 | 7,842 |
| Shareholders' equity | | 33,220 | 31,024 |

The parent company profit for the year after taxation was £3,394,000 (2017: £2,097,000).

The parent company financial statements were approved by the Board of Directors and authorised for issue on 1 April 2019.

**Simon Dunn**
Chief Executive

**Kim Taylor**
Group Finance Director

The accompanying notes form an integral part of these financial statements.

# Company Statement of Changes In Equity

## For the year ended 30 November 2018

| | Share Capital £'000 | Share Premium Reserve £'000 | Shares in Treasury £'000 | Retained Earnings £'000 | Total £'000 |
|---|---|---|---|---|---|
| At 1 December 2016 | 10,762 | 9,875 | (817) | 6,695 | 26,515 |
| Profit for the year | - | - | - | 2,097 | 2,097 |
| Dividends paid | - | - | - | (970) | (970) |
| Share based payment | - | - | - | 20 | 20 |
| Shares issued | 1,458 | 1,904 | - | - | 3,362 |
| At 30 November 2017 | 12,220 | 11,779 | (817) | 7,842 | 31,024 |
| Profit for the year | - | - | - | 3,394 | 3,394 |
| Dividends paid | - | - | - | (1,201) | (1,201) |
| Share based payment | - | - | - | 3 | 3 |
| At 30 November 2018 | 12,220 | 11,779 | (817) | 10,038 | 33,220 |

The accompanying notes form an integral part of these financial statements.

# Notes to the Company Financial Statements

For the year ended 30 November 2018

## 1. Accounting policies

The following principal accounting policies have been applied in the preparation of the parent company financial statements.

The principal activity of the Company is that of a holding company which has remained unchanged from the previous year.

**Basis of preparation**

The financial statements have been prepared under the historical cost convention and are in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

**Functional and presentation currency**

The financial statements are presented in British Pounds Sterling.

**Financial Reporting Standard 101 – reduced disclosure exemptions**

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- The requirement of IFRS 7 Financial Instruments Disclosure
- The requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
    - paragraph 79(a)(iv) of IAS 1;
    - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
    - paragraph 118(e) of IAS 38 Intangible Assets;
    - paragraph 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraph 10(d), 10(f), 16, 38A, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraph 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures.

**Investments**

Investments held as fixed assets are stated at cost less any provision for impairment. Where possible, advantage is taken of the merger relief rules and shares issued for acquisitions are accounted for at nominal value.

**Fixed assets**

Items of property, plant and equipment are initially recognised at cost, which includes both the purchase price and any directly attributable costs. Following initial recognition property, plant and equipment is carried at depreciated cost.

The useful lives and residual values of property, plant and equipment are reviewed at least annually and adjusted, where applicable. When disposed of, property plant and equipment is derecognised. Where an asset continues to be used by the company but is expected to provide reduced or minimal future economic benefits, it is considered to be impaired. Profits and losses on disposal are calculated by comparing the disposal proceeds with the carrying value of the asset, and the resultant gains or losses are included in the income statement. A gain or loss incurred at the point of derecognition is also included in the income statement at that point.

## 1. Accounting policies (continued)

Repairs and maintenance are charged to profit or loss in the financial period in which they are incurred. Where probable future economic benefits, in excess of the current standard of performance of the existing asset, are considered to be derived from its major renovation, the cost of that major renovation is added to the carrying value of that asset. Major renovations are then depreciated over the remaining useful life of the asset.

Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment, except freehold land, over their expected useful lives. It is calculated at the following rates:

Plant and machinery - 33% per annum straight line

**Financial assets**

The company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The company has not classified any of its financial assets as held to maturity or available for sale.

Loans and receivables: these assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the company will be unable to collect all of the amounts due under the terms of the receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in profit or loss. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Financial assets are de-recognised when the contractual rights to the cash flows from the asset expire or when the financial asset and all substantial risks and rewards are transferred.

Financial assets and liabilities include derivative financial instruments held at fair value through profit and loss ("FVTPL"). These assets and liabilities are, if they meet the relevant conditions, designated at FVTPL upon initial recognition. All of the company's derivative financial instruments currently fall into this category. Assets and liabilities in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of these financial assets and liabilities are determined by reference to active market transactions or using a valuation technique where no active market exists.

**Financial liabilities**

The company classifies its financial liabilities in a manner which depends on the purpose for which the liability was acquired:

- Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding;

- Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost, using the effective interest method;

- The company has entered into diesel commodity forward contracts. The agreements do not meet the definitions of hedging transactions under IAS 39 'Financial Instruments: Recognition and Measurement', but are accounted for as a derivative and are recorded at fair value through profit and loss.

A financial liability is de-recognised when it is extinguished, cancelled or it expires. The company has not classified any of its financial liabilities, other than derivatives, at fair value through profit or loss.

## 1. Accounting policies (continued)

**Taxation**

The charge for current taxation is provided at rates of corporation tax that have been enacted or substantively enacted by the reporting date. Current tax is based on taxable profits for the year and any adjustments to tax payable in respect of previous years.

Deferred tax is provided, using the balance sheet method, on all temporary differences which result in an obligation at the reporting date to pay more tax, or a right to pay less tax, at a future date, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Temporary differences arise between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The exceptions, where deferred tax assets are not recognised nor deferred tax liabilities provided, are:

- The initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- Taxable temporary differences associated with investments in subsidiary undertakings where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

**Fuel commodity forward contracts**

The company has a number of fuel commodity forward contracts at the year end, the settlement of which lies in the future; therefore the company has recognised both an asset and a liability in respect of these contracts, as appropriate.

**Self-insurance**

The company's policy is to self-insure high frequency, but low value, claims such as those for traffic accidents and to protect itself against high value claims through an insurance policy issued by a third party subject to an excess. Under this scheme, premiums to obtain the latter insurance are paid to QBE Insurance Limited ("QBE") in respect of each accounting period. These premiums are held by QBE in a trust separate from the assets of the company in order to meet those claims as and when they are settled. The company has no control over the assets of this trust. The administration of high frequency but low value claims is made by a claims handling specialist and the funding of the settlement of these claims is made by the company to the claims handler as and when required.

Claims can be made for a period of up to five years after the accounting period to which they relate. Should a year of insurance be in surplus, no rebate is recognised until the claim period has expired. Should a year of insurance be calculated at any time to be in deficit, an appropriate provision is made. Any provision made is discounted to take account of the expected timing of future payments.

**Share based payments**

Where share options are awarded to employees, the fair value of the options at the date of grant is charged in profit or loss over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market and non-market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged in profit or loss over the remaining vesting period. A decrease in fair value is not recognised.

**Changes in accounting standards and interpretations**

The adoption of the following accounting standards, amendments and interpretations in the current year has not had a material impact on the company's financial statements.

| | **EU effective date: Periods beginning on or after** |
|---|---|
| Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative | 1 January 2017 |
| IAS 12 Income Taxes: Amendment in relation to the recognition of deferred tax assets for unrealised losses | 1 January 2017 |
| Annual Improvements to IFRSs (2014 - 2016): Clarification of the scope of IFRS 12 Disclosure of Interests in Other Entities | 1 January 2017 |

The adoption of the following standards, amendments and interpretations (including IFRS 9 and 15) in future years is not expected to have a material impact on the company's financial statements.

The company is continuing to assess the impact that adopting IFRS 16 will have on future financial statements, and therefore the full effect is yet to be determined.

| | **EU effective date: Periods beginning on or after** | **IASB effective date: Periods beginning on or after** |
|---|---|---|
| Amendments to IAS 40 Investment Property: Transfer of Investment Property | 1 January 2018 | 1 January 2018 |
| Amendments to IFRS 2 Share-based Payment: Classification and measurement of Share-based payment transactions | 1 January 2018 | 1 January 2018 |
| Amendments to IFRS 4 Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts | 1 January 2018 | 1 January 2018 |
| IFRS 9 Financial Instruments | 1 January 2018 | 1 January 2018 |
| IFRS 15 Revenue from Contracts with Customers | 1 January 2018 | 1 January 2018 |
| Clarifications to IFRS 15 Revenue from Contracts with Customers | 1 January 2018 | 1 January 2018 |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration | 1 January 2018 | 1 January 2018 |
| Annual Improvements to IFRSs (2014 - 2016) | 1 January 2018 | 1 January 2018 |
| Annual Improvements to IFRSs (2015 - 2017) | 1 January 2019†** | 1 January 2019 |
| Amendments to IAS 19 Employee Benefits: Plan amendment, curtailment or settlement | 1 January 2019†** | 1 January 2019 |
| Amendment to IAS 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures | 1 January 2019†** | 1 January 2019 |
| Amendments to IFRS 9 Financial Instruments: Prepayment features with negative compensation | 1 January 2019 | 1 January 2019 |
| IFRS 16 Leases | 1 January 2019 | 1 January 2019 |
| IFRIC 23 Uncertainty over Income Tax Treatments | 1 January 2019 | 1 January 2019 |
| Amendments to References to the Conceptual Framework in IFRS Standards | 1 January 2020†* | 1 January 2020 |
| Amendment to IFRS 3 Business Combinations | 1 January 2020†* | 1 January 2020 |
| Amendments to IAS 1 and IAS 8: Definition of Material | 1 January 2020†* | 1 January 2020 |
| IFRS 17 Insurance Contracts | † | 1 January 2021 |

Standards, amendments and interpretations cannot be adopted in the EU until they have been EU-endorsed.

† Pending endorsement *Expected to be endorsed by the IASB effective date. **Not expected to be endorsed by the IASB effective date.

## 2. Profit for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit and loss account in these financial statements. The company's profit for the year includes a profit after taxation of £3,394,000 (2017: £2,097,000 profit) which is dealt with in these parent company financial statements.

For disclosure of the Auditor's fees reference should be made to note 7 to the consolidated financial statements

## 3. Staff costs

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Staff costs (including directors) comprise: | | |
| Wages and salaries | 1,162 | 1,106 |
| Employer's national insurance contributions | 122 | 109 |
| Defined contribution pension costs | 39 | 24 |
| | 1,323 | 1,239 |
| Share-based payment expense | - | 11 |
| | 1,323 | 1,250 |

For disclosure of the Directors' remuneration reference should be made to note 6 to the consolidated financial statements.

The average number of employees, including directors, during the year was as follows:

| | 2018 Number | 2017 Number |
|---|---|---|
| Management and administrative | 24 | 26 |

## 4. Investments

| | Subsidiary undertakings £'000 |
|---|---|
| Cost and net book value | |
| At 1 December 2017 | 32,126 |
| Additions | |
| At cost | - |
| Net book value | |
| At 30 November 2018 | 32,126 |
| Net book value | |
| At 30 November 2017 | 32,126 |

The principal undertakings (all held directly except where indicated), in which the company's interest at the year end is 20% or more, are as follows:

| | Country of incorporation or registration | Proportion of voting rights and ordinary share capital held | Nature of business |
|---|---|---|---|
| Diamond Bus Limited* | England | 100% | Transport |
| Diamond Bus (North West) Limited | England | 100% | Transport |
| Hallbridge Way Property Limited | England | 100% | Property holding |
| Hallmark Connections Limited | England | 100% | Transport |
| Preston Bus Limited | England | 100% | Transport |
| Shady Lane Property Limited | England | 100% | Property holding |
| Wessex Bus Limited | England | 100% | Transport |
| Diamond Bus Company Holding Limited | England | 100% | Holding company |
| Flights Hallmark Limited | England | 100% | Dormant |

* Held indirectly

All subsidiary undertakings in the group are registered at the same address. This is:

Rotala Group Headquarters
Cross Quays Business Park
Hallbridge Way
Tividale
Oldbury
West Midlands
B69 3HW

## 5. Tangible assets

| | Plant and machinery |
|---|---|
| Cost: | |
| At 1 December 2017 | 419 |
| Additions | 22 |
| Disposals | (23) |
| At 30 November 2018 | 418 |
| Depreciation: | |
| At 1 December 2017 | 193 |
| Charge for the year | 50 |
| Disposals | (23) |
| At 30 November 2018 | 220 |
| Net book value: | |
| At 30 November 2018 | 198 |
| At 30 November 2017 | 226 |

## 6. Debtors

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Prepayments and accrued income | 759 | 400 |
| Trade debtors | 17 | - |
| Taxation | 43 | 23 |
| Deferred tax (note 9) | 24 | - |
| Financial instruments | 95 | 450 |
| Amounts due from subsidiary undertakings | 19,548 | 15,233 |
| | 20,486 | 16,106 |

All amounts shown under debtors fall due for payment within one year.

## 7. Creditors: amounts falling due within one year

| | 2018 £'000 | 2017 £'000 |
|---|---|---|
| Bank loans and overdrafts (note 8) | 13,829 | 15,627 |
| Trade creditors | 272 | 171 |
| Taxation and social security | 29 | 63 |
| Accruals and deferred income | 298 | 85 |
| Other creditors | 222 | 237 |
| Fuel commodity forward contracts liability | 132 | - |
| | 14,782 | 16,183 |

## 8. Creditors: amounts falling due after more than one year

| | 2018 £'000 | 2018 £'000 |
|---|---|---|
| Bank loan | 4,068 | - |
| | 4,068 | - |

**Bank borrowings**

On 5 December 2017 the group engaged HSBC Bank plc as its principal bankers and all the group's facilities were transferred to that bank. This new Senior Facilities Agreement provides for a revolving facility of up to £15.5 million and a mortgage facility of £5.5 million, with a corresponding overdraft facility of up to £3.5 million. The group entered into a cross-guarantee and floating charge agreement on that same date covering these facilities. The facilities expire on 5 December 2021 but are renewable at that date.

The bank loans are secured on the group's freehold property. The annual mortgage repayments are calculated such that the mortgage facilities amortise in a straight line over a term of 20 years which is considered to give a reasonable approximation to the effective interest rate.

**Analysis of maturity**

| | Bank loans and overdrafts 2018 £'000 | Bank loans and overdrafts 2017 £'000 |
|---|---|---|
| In one year or less, or on demand | 13,829 | 15,627 |
| In more than one year but not more than two years | 278 | - |
| In more than two years but not more than five years | 3,790 | - |
| | 17,897 | 15,627 |

## 9. Deferred tax

The deferred tax asset/(liability) included in the company balance sheet is analysed as follows:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Accelerated capital allowances | 12 | (7) |
| Arising on derivative financial instruments | 7 | (81) |
| Losses | 5 | 39 |
| **Net asset/(liability)** | 24 | (49) |

All movements in each category of deferred tax asset or liability in the above table were dealt with in the profit and loss account.

The movements in the deferred tax asset/(liability) in the year are as follows:

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Balance brought forward at 1 December | (49) | 175 |
| Recognised in profit or loss | 73 | (224) |
| **Balance carried forward at 30 November** | 24 | (49) |

At 30 November 2018 there were £nil (2017: £nil) temporary differences or unused tax losses for which deferred tax has not been provided.

The main rate of corporation tax will fall further to 17% from 1 April 2020 (a change which has been substantively enacted).

Deferred tax has been measured at the average tax rates that are expected to apply in the accounting periods in which the timing differences are expected to reverse, based on the tax rates and laws which have been enacted or substantively enacted at the balance sheet date.

## 10. Provisions

| | 2018<br>£'000 | 2017<br>£'000 |
|---|---|---|
| Insurance claims provision | 740 | 1,203 |
| | 740 | 1,203 |

As set out in note 1 to the company financial statements, the policy of the company is to self-insure high frequency, but low value, claims such as those for traffic accidents and to protect itself against high value claims through an insurance policy issued by a third party subject to an excess. At the end of the 2016 accounting period responsibility for the administration of new claims passed to a third party claims handling specialist and QBE retained responsibility for settling all claims made up to 30 November 2016. At the same time QBE returned £1.3 million in cash to the company out of the trust fund which it held to settle claims made against the group, but the company assumed responsibility for funding those claims when they were settled.

In addition to the provision set out above, in order to meet claims as and when they are settled, QBE at 30 November 2018 retained a further £300,000 in cash (2017: £300,000). These funds are held in a trust account separate from the assets of the company. The company has no control over this trust account and accordingly does not recognise it as an asset.

As at 30 November 2017 and 2018 it is considered by the company that the provision held is sufficient to meet the settlement responsibility which falls on the company at those dates. Although the form of the manner in which insurance claims are made against the company and settled by the company has therefore changed, the substance has not changed and the accounting policy remains the same as in previous accounting periods.

Given the length of time which can elapse in dealing with insurance claims, it is probable that the above provision will be utilised gradually over the five year period in which claims can be made. Claims experience in the future will dictate the extent to which additions to the provision may be required and the extent of its utilisation in any accounting period.

## 11. Share capital

| | Allotted and called up and fully paid | | | |
|---|---|---|---|---|
| | 2018<br>Number | 2018<br>£'000 | 2017<br>Number | 2017<br>£'000 |
| Ordinary shares of 25p each | 48,880,918 | 12,220 | 48,880,918 | 12,220 |

| Issued Share Capital | Number | Nominal Value<br>£'000 |
|---|---|---|
| As at 30 November 2016 | 43,047,584 | 10,762 |
| 2 August 2017 | 3,333,332 | 833 |
| 18 August 2017 | 2,500,002 | 625 |
| As at 30 November 2017 and 2018 | 48,880,918 | 12,220 |

## 11. Share capital (continued)

Share issue costs of £138,000 were incurred in the share issue of 2017, and were charged to the share premium account.

Ordinary shares participate fully in the rights to vote, receive dividends and take part in any distribution of capital. There are no restrictions on ordinary shares nor are there any redeemable shares of any kind.

At 30 November 2018 854,338 ordinary shares were held in treasury (2017: 854,338).

## 12. Share options and warrants

As at 30 November 2018 the following share options had been issued and were outstanding under the company's employee share option schemes:

| Date of grant | Number of options granted | Earliest exercise date | Date of expiry | Exercise price |
|---|---|---|---|---|
| 24 November 2014 | 2,585,000 | 24 November 2017 | 23 November 2024 | 54.00p |
| 17 October 2016 | 303,851 | 1 December 2019 | 1 June 2020 | 58.05p |

The Rotala Plc SAYE Share Option Scheme (the "Scheme") is an HM Revenue & Customs approved share option scheme, administered by the Yorkshire Building Society ("YBS"), open to all employees. The issue of share options on 17 October 2016 is at present the only issue in relation to this Scheme. The Scheme runs for a three year period. Employees will subscribe, through payroll deductions, a monthly sum which will accumulate in their individual savings accounts at YBS. At the end of the three year period the employee will have the option to purchase ordinary shares of 25 pence in the company ("Ordinary Shares") at a price fixed at the start of each three year period. Under the rules of the Scheme, the board is free to price the share option at a discount to the market price of the Ordinary Shares, at the time the option is granted.

The company also operates an unapproved equity-settled share based remuneration scheme for group executive directors and senior management. The only vesting condition is that the individual remains an employee of the group until the option is exercised, except for the issue of 24 November 2014. Here the option issue is split into three equal tranches. For a tranche to be exercisable the share price of the company must have reached 65p, 80p and 95p respectively.

| | **2018** Weighted average exercise price (p) | **2018** Number | **2017** Weighted average exercise price (p) | **2017** Number |
|---|---|---|---|---|
| Outstanding at beginning of the year | 53.76 | 3,669,903 | 55.52 | 4,643,210 |
| Forfeited during the year | 58.05 | (126,052) | 58.05 | (73,307) |
| Lapsed during the year | 50.00 | (655,000) | 62.50 | (900,000) |
| Outstanding at the end of the year | 54.43 | 2,888,851 | 53.76 | 3,669,903 |

The exercise price of options outstanding at the end of the year ranged between 54.0p and 58.05p (2017: 50.0p and 58.05p) and their weighted average remaining contractual life was 5.53 years (2017: 5.38 years).

Of the outstanding options at the reporting date 861,667 (2017: 1,516,667) were exercisable. The weighted average exercise price of these options was 54.0p (2017: 52.27p).

## 13. Reserves

- Called up share capital represents the nominal value of shares which have been issued;
- The share premium account includes any premiums received on the issue of share capital. Any transaction costs associated with the issuance of shares are deducted from the share premium reserve;
- Shares in Treasury result from the acquisition by the company of its own shares. Shares are issued from Treasury to meet the requirement to satisfy the exercise of share options under the company's SAYE and unapproved share option schemes;
- Retained earnings include all current and prior period retained profits and losses.

## 14. Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in independently administered funds. The pension charge amounted to £39,000 (2017: £24,000). Contributions amounting to £nil (2017: £989) were payable to the scheme at the balance sheet date.

## 15. Capital commitments

As at 30 November 2017 and 2018 the company had no capital commitments.

## 16. Commitments under operating leases

The company had total commitments under non cancellable operating leases as set out below:

| | Other Assets **2018** £'000 | Other Assets **2017** £'000 |
|---|---|---|
| Operating lease commitments payable: | | |
| - Within one year | - | 3 |
| - In two to five years | - | - |
| | - | 3 |

## 17. Contingent liabilities

The company has entered into a cross-guarantee and floating charge agreement with its subsidiaries. At 30 November 2018 the contingent liability amounted to £110 (2017: £598,372).

The company has guaranteed the hire purchase obligations of its subsidiaries. At 30 November 2018 the contingent liability amounted to £14,002,000 (2017: £11,515,000).

## 18. Related parties and transactions

- The services of J H Gunn were provided by Wengen Limited, a company controlled by J H Gunn, and invoiced by that company to Rotala, as set out in note 6 of the group financial statements. At the year end £nil (2017: £nil) of the amount charged was unpaid and included within creditors. During the year J H Gunn received from Rotala a total of £134,112 (2017: £123,383) in dividends on ordinary shares.
- Certain of the services of R A Dunn were provided by motorBus Limited, a company controlled by R A Dunn, and invoiced by that company to a subsidiary undertaking of Rotala, as set out in note 6 of the group financial statements. At the year end £18,000 (2017: £23,417) of the amount charged was unpaid and included within creditors. During the year R A Dunn received from Rotala a total of £26,276 (2017: £21,434) in dividends on ordinary shares.
- During the year S L Dunn received from Rotala a total of £38,997 (2017: £35,223) in dividends on ordinary shares.
- During the year K M Taylor received from Rotala a total of £14,326 (2017: £13,180) in dividends on ordinary shares.
- During the year G M Spooner received from Rotala a total of £4,550 (2017: £1,150) in dividends on ordinary shares.
- During the year G F Peacock received from Rotala a total of £69,367 (2017: £nil after date of appointment) in dividends on ordinary shares.
- J H Gunn is a director of The 181 Fund Limited ("The Fund"), a company incorporated in Jersey. The Fund held an interest in 1,702,443 ordinary shares of Rotala as at 30 November 2018 (2017: 1,802,443 ordinary shares). Under Jersey law, Mr Gunn, as a non-resident of that state, is unable to exercise his vote at board meetings of The Fund. At 30 November 2018 Mr. Gunn and his beneficial interests held 30% (2017: 30%) of the ordinary share capital of The Fund. During the year The Fund received from Rotala a total of £43,411 (2017: £41,456) in dividends on ordinary shares.

ROTALA
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