

BUSINESS POST LTD

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2005

Company Registration No. 0965783



BUSINESS POST LTD
DIRECTORS AND ADVISERS

DIRECTORS

C G Buswell
P D C Fitzwilliam
M Kane
P Kane
D A Ross

SECRETARY

P D C Fitzwilliam

REGISTERED OFFICE

Express House
464 Berkshire Avenue
Slough
Berkshire
SL1 4PL

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
West London Office
The Atrium
1 Harefield Road
Uxbridge
UB8 1EX

BANKERS

Lloyds TSB
125 Colmore Row
Birmingham
B3 2DS

SOLICITORS

Eversheds
115 Colmore Row
Birmingham
B3 3AL

BUSINESS POST LTD

DIRECTORS' REPORT

for the year ended 31 March 2005

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The principal activity of the company is the provision of national and international parcel and express mail collection and delivery services.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The results of the year are shown in the profit and loss account on page 5. The directors consider the results to be satisfactory. Prospects for the future development and growth of the company in the current economic environment are considered to be good.

RESULTS AND DIVIDENDS

The company's profit for the financial year was £12,749,000 (2004: £13,604,000). No interim dividend was paid during the year (2004 - £ nil). The directors recommend the payment of a final dividend of £14,922,177 (2004: £13,604,000).

The retained loss for the year of £2,173,000 (2004 - £ nil) has been transferred to reserves.

CHARITABLE AND POLITICAL DONATIONS

The company made charitable donations of £98,801 (2004 - £58,434) including £86,444 (2004 - £58,434) to the National Children's Home Charity for general charitable purposes, and £5,958 (2004 - £ nil) to the DEC Tsunami Earthquake appeal. No political donations were made (2004 - £ nil).

SUPPLIER PAYMENT POLICY

The company's policy concerning the payment of its trade creditors is to follow the CBI's Prompt Payers' Code. The company endeavours to agree standard terms of payment with its major suppliers at the commencement of business. Suppliers fulfilling the conditions of supply are paid in accordance with agreed standard terms. Other suppliers are paid in accordance with the contractual terms as agreed from time to time.

EMPLOYMENT POLICY

The company's policy is to maintain, as far as practicable, close consultations with employees on matters likely to affect their interests and, to this end, established an Employee Consultative Group in April 2003. The company is an equal opportunities employer and holds an Investors in People certificate.

The company's policy and practice is to encourage the recruitment and subsequent training, career development and promotion of disabled persons according to their aptitudes and abilities and the retention and retraining of employees who also become disabled during their employment.

DIRECTORS' REPORT (Cont'd)

for the year ended 31 March 2005

DIRECTORS' INTERESTS

The directors who have held office during the year and up to the date of signing the financial statements were:

C G Buswell
P D Carvell *
R Hodgson *
P D C Fitzwilliam (Company Secretary)
M Kane
P Kane (Chairman)
D A Ross

* Since the year end, R Hodgson resigned as a director on 30 September 2005 and P D Carvell resigned as a director on 5 January 2006.

The interests of all of the above directors, who are also directors of the ultimate parent company, Business Post Group plc, are shown in the annual report of that company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2005 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS

The company, in accordance with Section 386 of the Companies Act 1985, has elected to dispense with the obligation to appoint auditors annually. In the absence of a notice proposing that the appointment be terminated, PricewaterhouseCoopers LLP will be deemed to be re-appointed for the forthcoming financial year.

By order of the Board



P D C Fitzwilliam
Director,
30 January 2006

INDEPENDENT AUDITORS' REPORT

for the year ended 31 March 2005

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BUSINESS POST LTD

We have audited the financial statements, which comprise the profit & loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

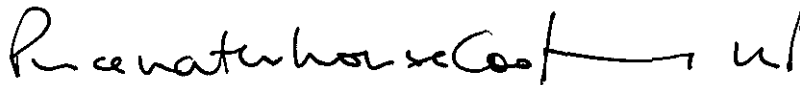
Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Boards. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
West London
30 January 2006

BUSINESS POST LTD

PROFIT AND LOSS ACCOUNT
for the year ended 31 March 2005

	Notes	2005	2004
		£'000	£'000
TURNOVER		195,684	174,085
Cost of sales		<u>(151,648)</u>	<u>(134,329)</u>
GROSS PROFIT		44,036	39,756
Administrative expenses		<u>(26,623)</u>	<u>(21,466)</u>
OPERATING PROFIT BEFORE EXCEPTIONAL ITEM		20,613	18,290
Exceptional administrative expenses	19	<u>(3,200)</u>	-
OPERATING PROFIT	2	17,413	18,290
Net interest receivable	6	<u>211</u>	<u>381</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		17,624	18,671
Tax charge on profit on ordinary activities	7	<u>(4,875)</u>	<u>(5,067)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		12,749	13,604
Equity dividends	8	<u>(14,922)</u>	<u>(13,604)</u>
RETAINED LOSS FOR THE FINANCIAL YEAR	16	<u>(2,173)</u>	-

The loss for the financial year is derived from continuing operations and includes all recognised gains and losses for the year and therefore no separate statement of total recognised gains and losses has been presented.

There is no material difference between the profit on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

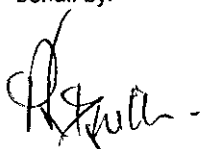
The notes on pages 7 to 14 form part of these financial statements.

BUSINESS POST LTD

BALANCE SHEET
as at 31 March 2005

	Notes	2005 £'000	2004 £'000
FIXED ASSETS			
Tangible fixed assets	9	33,858	31,723
CURRENT ASSETS			
Debtors	10	52,924	36,108
Cash at bank and in hand		-	1,618
		52,924	37,726
CREDITORS: amounts falling due within one year	11	(84,571)	(65,314)
NET CURRENT LIABILITIES		(31,647)	(27,588)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,211	4,135
CREDITORS: amounts falling due after more than one year			
Provision for liabilities and charges	12	(1,883)	(1,634)
NET ASSETS		328	2,501
CAPITAL AND RESERVES			
Called up share capital	14	1	1
Profit and loss account	15	327	2,500
TOTAL EQUITY SHAREHOLDERS' FUNDS	16	328	2,501

The financial statements on pages 5 to 14 were approved by the Board of Directors on 30 January 2006 and were signed on its behalf by:



P D C Fitzwilliam
Director

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2005

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

No cash flow statement has been presented in accordance with Financial Reporting Standard No. 1 (1996), as it is a wholly owned subsidiary of the ultimate parent company whose financial statements are publicly available.

The financial statements have been prepared on a going concern basis and in accordance with the Companies Act 1985.

The principal accounting policies, which have been applied consistently throughout the year, are set out below :

Turnover

Turnover comprises the value of national and international parcel and express mail collection and delivery services provided and income earned in respect of franchises sold, net of value added tax. Turnover is from one class of business and originated in the UK.

Pension costs

Contributions to the company sponsored employees' personal pension plans and defined contribution schemes are charged to the profit and loss account in the year in which they accrue.

Long term incentive plan

The value of awards under the Business Post Group long term incentive plan are charged over the relevant performance period, discounted by an estimated probability of meeting the performance criteria.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease except for vacant properties, where full provision is made for the anticipated rent liability to be incurred. Provision is also made for the cost of making good dilapidations where required under property leases.

The benefits of rent free periods are spread evenly over the period of the lease up to the date of the next rent review.

Rentals received under operating leases are credited on a straight line basis over the lease term, even if the payments are not received on such basis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

for the year ended 31 March 2005

1 ACCOUNTING POLICIES (Continued)**Foreign exchange**

Transactions in foreign currencies are recorded in Sterling at the rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate ruling at the balance sheet date. All exchange differences are taken to the profit and loss account as they arise.

Tangible fixed assets

Tangible fixed assets are stated at their historical purchase cost, together with any incidental expenses of acquisition. Depreciation is provided on all tangible fixed assets at rates calculated to write off the historical purchase cost, less estimated residual value, over the estimated useful economic lives of the assets as follows:

Freehold buildings	fifty years on a straight line basis
Short leasehold premises	the period of the lease on a straight line basis
Motor vehicles, plant and equipment	10% to 33.3% annually on a reducing balance basis
Computer equipment	14% to 33% annually on a straight line basis

The company does not depreciate freehold land.

Deferred taxation

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

A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

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

BUSINESS POST LTD

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2005

2 OPERATING PROFIT	2005	2004
is stated after charging/(crediting):	£'000	£'000
Depreciation - own assets	4,179	3,562
(Profit)/loss on disposal of tangible fixed assets	(23)	35
Operating lease rentals payable		
- plant and machinery	5,147	4,404
- other operating leases	2,502	2,139
Operating lease rentals receivable		
- plant and machinery	(829)	(875)
- other operating leases	(225)	(238)
Profit on foreign exchange	(4)	(15)
Property related provisions	111	44
Auditors' remuneration - audit services	50	47
Auditors' remuneration - non-audit services (tax advice)	45	18
	<u>45</u>	<u>18</u>
3 DIRECTORS' REMUNERATION	2005	2004
	£'000	£'000
Directors' emoluments (including benefits in kind)	989	1,169
	<u>989</u>	<u>1,169</u>
	£'000	£'000
Aggregate pension contributions for money purchase schemes in respect of 5 directors (2004: 5)	98	86
	<u>98</u>	<u>86</u>
The emoluments of the highest paid director were as follows :		
	£'000	£'000
Emoluments	264	329
	<u>264</u>	<u>329</u>
	£'000	£'000
Pension contributions for money purchase scheme in respect of the highest paid director were :	26	25
	<u>26</u>	<u>25</u>

As all the directors are also directors of the ultimate parent company, Business Post Group plc, disclosure regarding amounts receivable under the long term incentive plan and the exercise of options is shown in the annual report of that company. All of the directors are remunerated by the company. One of the directors is also paid by another group company.

Five directors (2004: Three) exercised options over shares in Business Post Group plc.

BUSINESS POST LTD

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2005

4 STAFF COSTS	2005 £'000	2004 £'000
Wages and salaries	30,996	28,219
Social security costs	3,208	2,546
Other pension costs	727	500
Cost of employee share schemes	112	-
	35,043	31,265
5 STAFF NUMBERS		
The average monthly number of persons (including directors) employed by the Company during the year was as follows :	2005 Number	2004 Number
Administration	165	130
Operational	1,524	1,439
	1,689	1,569
6 NET INTEREST RECEIVABLE	2005 £'000	2004 £'000
Interest receivable	409	381
Interest payable - bank overdraft	(198)	-
	211	381
7 TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES	2005 £'000	2004 £'000
The tax charge comprises:		
Current tax		
UK Corporation tax at 30% (2004: 30%)	4,761	5,213
Adjustments in respect of prior years: UK corporation tax	(93)	(331)
Total current tax	4,668	4,882
Deferred taxation (see note 12)	207	185
Tax charge on profit on ordinary activities	4,875	5,067
The differences between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:		
	2005 £'000	2004 £'000
Profit on ordinary activities before tax	17,624	18,671
Tax at 30% (2004: 30%) thereon	5,287	5,601
Effects of:		
Expenses not deductible for tax purposes	69	38
Depreciation in excess of capital allowances	(179)	(158)
Group relief claimed	(416)	(268)
Adjustments in respect of prior years: UK corporation tax	(93)	(331)
Total current tax	4,668	4,882

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2005

8 DIVIDENDS

	2005	2004
	£'000	£'000
Proposed £14,922.177 per £1 ordinary share (2004: £13,604 per share)	<u>14,922</u>	<u>13,604</u>

9 TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Short leasehold premises £'000	Motor Vehicles, Plant & Equipment £'000	Computer Equipment £'000	Total £'000
Cost					
1 April 2004	23,040	737	14,020	8,185	45,982
Additions	727	64	2,143	3,450	6,384
Disposals	-	-	(621)	(104)	(725)
31 March 2005	<u>23,767</u>	<u>801</u>	<u>15,542</u>	<u>11,531</u>	<u>51,641</u>
Accumulated depreciation					
1 April 2004	2,370	266	7,188	4,435	14,259
Charge for the year	324	52	1,483	2,320	4,179
Disposals	-	-	(563)	(92)	(655)
31 March 2005	<u>2,694</u>	<u>318</u>	<u>8,108</u>	<u>6,663</u>	<u>17,783</u>
Net book value					
31 March 2005	<u>21,073</u>	<u>483</u>	<u>7,434</u>	<u>4,868</u>	<u>33,858</u>
31 March 2004	<u>20,670</u>	<u>471</u>	<u>6,832</u>	<u>3,750</u>	<u>31,723</u>

Included in freehold land and buildings is freehold land with a cost of £7,691,000 (2004: £7,691,000) which is not depreciated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2005

10 DEBTORS

	2005 £'000	2004 £'000
Trade debtors	32,461	29,110
Amounts owed by fellow subsidiaries	15,058	46
Amounts due from franchisees (see note 19)	2,824	5,211
Other debtors	535	789
Prepayments and accrued income	2,046	952
	<u>52,924</u>	<u>36,108</u>

Included in amounts due from franchisees are amounts recoverable after more than one year of £148,844 (2004: £4,794,891).

Interest does not accrue on the unsecured inter-company balances, which are repayable on demand.

11 CREDITORS: amounts falling due within one year

	2005 £'000	2004 £'000
Bank overdraft	2,207	-
Trade creditors	7,728	6,216
Accruals and deferred income	3,686	3,013
Amounts owed to parent undertaking	42,544	33,112
Amounts owed to fellow subsidiaries	6,604	404
Corporation tax	1,052	2,312
Other taxes and social security	3,165	2,762
Amounts due to franchisees	2,663	3,891
Proposed dividend	14,922	13,604
	<u>84,571</u>	<u>65,314</u>

Interest does not accrue on the unsecured inter-company balances, which are repayable on demand.

12 PROVISION FOR LIABILITIES AND CHARGES

	Deferred taxation £'000	Property leases £'000	Total £'000
1 April 2004	1,265	369	1,634
Charged to Profit and Loss Account			
Accelerated capital allowances	207	-	207
Dilapidations	-	111	111
	<u>207</u>	<u>111</u>	<u>318</u>
Utilised in the year	-	(69)	(69)
31 March 2005	<u>1,472</u>	<u>411</u>	<u>1,883</u>

The provision for property leases relates to dilapidations obligations and rental commitments on non-operational properties under leases expiring between 1 and 14 years.

	2005 £'000	2004 £'000
Deferred taxation potential and provided in respect of:		
Accelerated capital allowances	<u>1,472</u>	<u>1,265</u>
Total deferred tax	<u>1,472</u>	<u>1,265</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2005

13 PENSION COSTS

The company sponsors employees' personal pension plans. Contributions were made by the company at rates of between 3 per cent and 12.5 per cent of the eligible employees' salary in the year ended 31 March 2005. Contributions for the year amount to £726,937 (2004: £500,285).

14 CALLED UP SHARE CAPITAL

	2005 £'000	2004 £'000
Authorised, allotted and called up 1,000 ordinary shares of £1 each	<u>1</u>	<u>1</u>

15 PROFIT AND LOSS ACCOUNT

	2005 £'000	2004 £'000
As at 1 April 2004	2,500	2,500
Retained loss for the financial year	<u>(2,173)</u>	<u>-</u>
As at 31 March 2005	<u>327</u>	<u>2,500</u>

16 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2005 £'000	2004 £'000
Opening equity shareholders' funds as at 1 April 2004	2,501	2,501
Profit for the financial year	<u>12,749</u>	<u>13,604</u>
	15,250	16,105
Dividends	<u>(14,922)</u>	<u>(13,604)</u>
Closing equity shareholders' funds as at 31 March 2005	<u>328</u>	<u>2,501</u>

17 FINANCIAL COMMITMENTS

Capital commitments contracted for but not provided at 31 March 2005 were £393,894 (2004: £363,782).

Operating Leases

At 31 March 2005 the Company had the following annual commitments in respect of non-cancellable operating leases:

	Land and buildings 2005 £'000	Other 2005 £'000	Land and buildings 2004 £'000	Other 2004 £'000
Expiring				
- within one year	21	813	21	426
- within two to five years	904	4,273	826	4,244
- after five years	<u>1,464</u>	<u>-</u>	<u>951</u>	<u>-</u>
	<u>2,389</u>	<u>5,086</u>	<u>1,798</u>	<u>4,670</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
for the year ended 31 March 2005

18 CONTINGENT LIABILITIES

The company acts as guarantor for a £9m (2004 : £10m) sterling term loan held by the ultimate parent company, Business Post Group plc, details of which are shown in the annual report of that company.

In addition the company, together with fellow subsidiaries of Business Post Group plc, acts as a guarantor under a £10m undrawn group borrowing facility.

19 POST-BALANCE SHEET EVENT

Following the year end, Business Post Group has undertaken a detailed review of its franchise operations. This review highlighted the need to provide an increased level of support for certain franchises so as to put franchises on a more profitable footing. As a result the Group has made a £4.7m provision against amounts owed by certain franchises, of which £3.2m relates to prior years. This £3.2m provision has been shown as an exceptional item within these accounts.

20 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

Business Post Group plc, a company incorporated in Great Britain, is the immediate and ultimate parent company and the ultimate controlling party.

P Kane, a director of the Company and of the parent company, together with members of his close family and certain family trusts, the beneficiaries of which are persons connected with P Kane, control directly and indirectly 46.0% of the issued share capital of the parent company.

The parent undertaking of the largest and smallest group which includes the company and for which group accounts are prepared is Business Post Group plc.

Copies of the financial statements can be publicly obtained from the registered office at Express House, 464 Berkshire Avenue, Slough, Berkshire, SL1 4PL.

21 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted to 90% subsidiaries not to disclose transactions with group undertakings under the provisions of Financial Reporting Standard No. 8 "Related party disclosures" on the basis that it is a wholly owned subsidiary of Business Post Group plc.