# BUSINESS POST LTD

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS

## for the year ended 31 March 2006

Company Registration No. 0965783

## DIRECTORS AND ADVISERS

### DIRECTORS

C G Buswell
S Glew
M Kane
P Kane
D A Ross

### SECRETARY

C Cochrane

### REGISTERED OFFICE

Express House
464 Berkshire Avenue
Slough
Berkshire
SL1 4PL

### INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
The Atrium
1 Harefield Road
Uxbridge
UB8 1EX

### BANKERS

Lloyds TSB Bank plc
125 Colmore Row
Birmingham
B3 2DS

### SOLICITORS

Eversheds LLP
115 Colmore Row
Birmingham
B3 3AL

Dechert LLP
2 Serjeants' Inn
London
EC4Y 1LT

## DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2006. These are the first set of financial statements prepared under International Financial Reporting Standards (IFRS). The principal impact of IFRS on the accounts of the Company has been the requirement to account for the accrued entitlement to holiday pay and to quantify the fair value of share options, including those issued in prior years, and spread that across the relevant vesting period. Further details of the impact of adopting IFRS are given in note 28 to the financial statements.

## PRINCIPAL ACTIVITIES

Business Post Limited is a private limited company incorporated on 10th November 1969 under English law and domiciled in England. The Company is a subsidiary of Business Post Group plc, a public limited company incorporated and domiciled in England and listed on the London Stock Exchange (LSE:BPG).

The principal activity of the Company is the operation of national and international parcel collection and delivery services.

## REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Pre-tax profits of £2,685,000 (2005: £16,610,000) have been achieved on revenue of £205,991,000 (2005: £195,684,000). The directors consider the results to be in line with expectations.

Both the progressive decline in revenue growth during the year and the markedly lower profitability can be attributed in large part to the impact of a number of unsuccessful profit-improvement initiatives introduced during the year. These included short-term cost reduction initiatives which adversely impacted service levels. These service issues, and a series of price increases in the summer, in turn affected customer numbers, particularly small and medium sized enterprises, with the result that the average selling price declined and operational efficiency reduced.

Exceptional costs totalled £4,520,000 (2005: £3,200,000), comprising £1,880,000 to cover converting underperforming franchise sites to corporate sites in the year to 31 March 2006, and £300,000 in relation to claims from prior franchisees. Management restructuring costs of £797,000 relate to the departure of Paul Carvell as Chief Executive and a number of significant changes to the management team following the appointment of Guy Buswell, after deduction of related share-based credits. Franchise related costs represent a provision of £1,543,000 (2005: £3,200,000) against amounts owed by certain franchises.

An action plan was set in place to improve the performance of the Company; with service levels in the first quarter of 2006 amongst the highest in the Company's history, with the improved service continuing to track above last year.

Trading since the year end has been satisfactory. Encouraging progress is being made in tackling the issues within the franchise network and implementing initiatives to rebalance the mix of customers and reduce unit costs within the Company.

On the 18th December 2006 FedEx announced its acquisition of ANC Holdings. This announcement has led to the informed intention to terminate this contract. The effects of this loss are still to be quantified, however we do not expect any impact on trading profits in the year to 31 March 2007.

## PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key financial risks and uncertainties affecting the Company are considered to relate to credit risk on trade and franchise debts and fuel price risk. Further discussion of these risks and uncertainties is provided in note 1 to these financial statements.

## KEY PERFORMANCE INDICATORS

The directors of Business Post Group plc manage the group's operations on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of Business Post Limited. The development, performance and position of the parcel division of Business Post Group plc, which includes the Company, is discussed on pages 7 and 8 of the group's annual report which does not form part of this report.

## RESULTS AND DIVIDENDS

The Company's profit for the financial year was £1,544,000 (2005: £12,024,000). A dividend of £14,922 per £1 ordinary share was paid on 28 March 2006 (2005: £13,604 per £1 ordinary share). Total dividends paid were £14,922,000 (2005: £13,604,000).

The retained profit for the year of £1,544,000 (2005: £12,024,000) has been transferred to reserves.

### CHARITABLE AND POLITICAL DONATIONS

The Company made charitable donations of £77,067 (2005: £86,444) to the National Children's Home Charity for general purposes, and £nil (2005: £5,958) to the DEC Tsunami Earthquake appeal. Other charitable donations totalled £1,250 (2005: £6,300). No political donations were made (2005: £nil).

### SUPPLIER PAYMENT POLICY

The Company's policy concerning the payment of its trade payables 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 the 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 (ECG) in April 2003. The ECG aims to improve relationships and attitudes by working with employees and management to solve issues together, by encouraging employees to identify issues that need to be raised and to use the ECG as the medium through which they are raised. Each site has self-elected ECG representation through which issues can be discussed, and represented at regional and national forums.

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' 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 Carvell | (resigned 5 December 2005) |
| P D C Fitzwilliam | (resigned 2 June 2006) |
| S Glew | (appointed 5 June 2006) |
| R Hodgson | (resigned 30 September 2005) |
| M Kane | |
| P Kane (Chairman) | |
| D A Ross | |

The interests of C G Buswell, M Kane, P Kane and D A Ross who are also directors of the ultimate parent company, Business Post Group plc, are shown in the annual report of that company. Additionally, the interests of P Carvell, P D C Fitzwilliam and R Hodgson, who were also directors of the ultimate parent company, Business Post Group plc, are also shown in the annual report of that Company.

Since the year end, Peter Fitzwilliam resigned as a director of the board of the Company and the ultimate parent company, Business Post Group plc, and as Company Secretary on 2 June 2006. Martin Wright was appointed Company Secretary on 2 June 2006 and resigned on 31 October 2006. Steven Glew was appointed to both the board of the Company, and to the board of the ultimate parent company, Business Post Group plc on 5 June 2006. Steven Glew was appointed Company Secretary on 31 October 2006 and resigned on 1 December 2006. Charles Cochrane was appointed Company Secretary on 1 December 2006.

### 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 in the preparation of the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2006 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.

**STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITORS**

So far as the directors are aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware.

The directors have taken all the steps that ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**AUDITORS**

As a result of an elective resolution, the Company has dispensed with the holding of an annual general meeting under Section 366A of the Companies Act 1985 and dispensed with the obligation to appoint auditors annually under Section 386 of the Companies Act 1985.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and will therefore continue in office as auditor to the Company until further notice.

By order of the board

**S Glew**
Director
31 January 2007

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BUSINESS POST LTD

We have audited the financial statements of Business Post Ltd for the year ended 31 March 2006, which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union 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 International Standards on Auditing (UK and Ireland). 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. 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 judgments 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, in accordance with IFRS's as adopted by the European Union, of the state of the Company's affairs as at 31 March 2006 and of its profit and cash flows for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
West London
31 January 2007

# INCOME STATEMENT

**for the year ended 31 March 2006**

| | Notes | **2006** **£'000** | 2005 £'000 |
|---|---|---|---|
| Revenue | | **205,991** | 195,684 |
| Cost of sales | | **(169,604)** | (151,712) |
| **Gross profit** | | **36,387** | 43,972 |
| Administrative expenses | | **(33,788)** | (27,573) |
| **Operating profit before exceptional items** | | **7,119** | 19,599 |
| Exceptional items - administrative expenses | 2 | **(4,520)** | (3,200) |
| **Operating profit** | 3 | **2,599** | 16,399 |
| Interest payable | 4 | **(321)** | (198) |
| Interest receivable | 4 | **407** | 409 |
| **Profit before taxation** | | **2,685** | 16,610 |
| Taxation | 6 | **(1,141)** | (4,586) |
| **Profit for the financial year** | | **1,544** | 12,024 |

The profit for the financial year arises from the Company's continuing activities, and is wholly attributable to equity holders of the Company.

The related notes on pages 10 to 29 form part of these financial statements.

## BALANCE SHEET

**as at 31 March 2006**

| | Notes | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 8 | **380** | 435 |
| Investment properties | 9 | **1,109** | 1,142 |
| Property, plant and equipment | 10 | **32,727** | 32,281 |
| Trade and other receivables | 12 | **143** | 1,547 |
| Deferred tax assets | 16 | **95** | 1,836 |
| | | **34,454** | 37,241 |
| **Current assets** | | | |
| Inventories | 11 | **167** | 142 |
| Trade and other receivables | 12 | **53,713** | 51,235 |
| Current tax assets | | **1,871** | - |
| Cash and cash equivalents | 13 | **1,435** | - |
| | | **57,186** | 51,377 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Borrowings | 14 | - | (2,207) |
| Trade and other payables | 15 | **(87,654)** | (66,944) |
| Current tax liabilities | | - | (886) |
| Provisions | 17 | **(691)** | (69) |
| | | **(88,345)** | (70,106) |
| **Net current liabilities** | | **(31,159)** | (18,729) |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 16 | **(1,129)** | (1,472) |
| Provisions | 17 | **(251)** | (342) |
| **Net assets** | | **1,915** | 16,698 |
| **Shareholders' equity** | | | |
| Ordinary shares | 18 | **1** | 1 |
| Retained earnings | 19 | **1,914** | 16,697 |
| **Total shareholders' equity** | | **1,915** | 16,698 |

The financial statements on pages 6 to 29 were approved by the board of directors on 31 January 2007 and were signed on its behalf by:

S Glew
Director

The related notes on pages 10 to 29 form part of these financial statements.

## CASH FLOW STATEMENT

**for the year ended 31 March 2006**

| | Notes | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 20 | **27,620** | 20,853 |
| Interest received | | **407** | 409 |
| Interest paid | | **(321)** | (198) |
| Taxation paid | | **(3,369)** | (5,928) |
| Other non cash items | | **(537)** | 933 |
| **Net cash inflow from operating activities** | | **23,800** | 16,069 |
| **Investing activities** | | | |
| Proceeds from disposal of property, plant and equipment | | **715** | 93 |
| Purchase of intangible assets | 8 | **(176)** | (227) |
| Purchase of property, plant and equipment | 10 | **(5,775)** | (6,156) |
| ***Net cash outflow from investing activities*** | | **(5,236)** | (6,290) |
| **Financing activities** | | | |
| Dividends paid to shareholders | 7 | **(14,922)** | (13,604) |
| **Net cash outflow from investing activities** | | **(14,922)** | (13,604) |
| **Net increase/(decrease) in cash and cash equivalents** | 25 | **3,642** | (3,825) |
| Cash and cash equivalents at 1 April | 25 | **(2,207)** | 1,618 |
| **Cash and cash equivalents at 31 March** | 25 | **1,435** | (2,207) |

The related notes on pages 10 to 29 form part of these financial statements.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

**for the year ended 31 March 2006**

| | Notes | **2006** **£'000** | 2005 £'000 |
|---|---|---|---|
| **Shareholders' equity at 1 April** | | **16,698** | 16,316 |
| *Dividends paid to shareholders* | 7 | **(14,922)** | *(13,604)* |
| Employees' share option scheme: | | | |
| - value of employee services | | **(536)** | 932 |
| Tax on items taken directly to equity | 16 | **(869)** | 1,030 |
| Profit for the financial year | | **1,544** | 12,024 |
| **Shareholders' equity at 31 March** | | **1,915** | 16,698 |

The related notes on pages 10 to 29 form part of these financial statements.

## 1 Principal accounting policies

**Accounting policies for the year ended 31 March 2006**

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

**Basis of preparation**

These financial statements have been prepared in accordance with EU-adopted International Financial Reporting Standards (IFRS), and International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act, 1985 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities held for trading.

The preparation of financial statements in conformity with generally accepted accounting principles, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the recoverability of trade receivables (note 12), and managements estimate of provisions (note 17).

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

**Conversion to IFRS**

This is the first year that the Company has produced financial statements under IFRS. The adoption of IFRS from the transition date of 1 April 2004, has resulted in a number of presentational adjustments to the previously reported results presented under UK generally accepted accounting principles (UK GAAP). The main changes were in relation to the requirement to account for accrued holiday pay entitlement, and to quantify the fair value of share options, including those issued in prior years, and to spread that across the relevant accounting period.

IFRS 1, 'First-Time Adoption of International Financial Reporting Standards', permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The Company has applied the following key exemptions:

* **Financial instruments**: The Company applied the IFRS 1 exemption from the requirement to restate comparative information for the effects of adopting IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'. Comparative information as at 1 April 2004 and for the year to 31 March 2005 is presented under UK GAAP applicable at that time.

Note 28, 'Transition to IFRS', provides further details.

The Company has not adopted any standards early, including the amendment to IFRS 7 'Financial instruments: disclosures', and the complementary amendment to IAS 1 'Presentation of financial statements'. The Company has not adopted interpretations to existing standards ahead of their mandatory application, including IFRIC 8, 'Scope of IFRS 2', and IFRIC 10, 'Interim financial reporting and impairment'.

**Intangible assets**

Intangible assets include acquired computer software licences not part of the operating software acquired with a related piece of hardware. These are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives, normally three to four years.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated over the estimated useful economic life less residual value of the asset as follows:

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

The normal expected useful lives and residual values of the major categories of property, plant and equipment are reviewed annually.

The carrying value of property, plant and equipment is reviewed at least annually. Any resultant impairment losses are charged immediately to the income statement.

**Investment properties**

Investment properties comprise of freehold and leasehold land and buildings held for long term rental yields and are not occupied by the Company.

Investment properties are accounted for under the cost model, at cost less accumulated depreciation and accumulated impairment losses.

**Inventories**

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

Cost is determined using the first-in-first-out method and net realisable value is the estimated selling price less costs of disposal in the ordinary course of business.

**Finance and operating leases**

Costs in respect of operating leases are charged on a straight line basis over the term of the lease.

Leasing agreements, which transfer to the Company substantially all the benefits and risks of ownership of an asset, are treated as if the asset has been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give constant periodic rates of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets.

**Segment reporting**

A business segment is a component of the Company that is engaged in providing a group of related services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a component of the Company that operates within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

The Company operates in one business and one geographic segment being the courier and UK markets respectively.

**Revenue**

Revenue reflects all sales invoiced by the Company, whether delivered by network services or a franchise. Revenue is recognised in the accounting period in which consignments are delivered to customers.

Income from the sale of franchises is recognised over the life of the franchise agreement in proportion to the share of services rendered, by reference to the proportion of the total services to be provided.

Income from investment properties is recognised on a straight line basis over the term of the lease, even if the payments are not received on such a basis.

All revenues are stated net of value added tax.

**Deferred taxation**

Full provision is made for deferred taxation on all taxable temporary differences. Deferred tax assets and liabilities are recognised separately on the balance sheet. Deferred tax assets are recognised only to the extent that they are expected to be recoverable.

Deferred taxation is recognised in the income statement unless it relates to taxable transactions taken directly to equity, in which case the deferred tax is also recognised in equity. The deferred tax is released to the income statement at the same time as the taxable transaction is recognised in the income statement.

**Pension costs**

The Company sponsors a number of employees' personal pension plans. The assets of the plans are held separately from those of the Company in independently administered funds. The pension costs charged in the income statement represent contributions payable by the Company to the plans together with the administration charges of the plans.

**Foreign currencies**

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 of exchange ruling at the balance sheet date. All exchange differences arising from trading transactions are dealt with in the income statement.

**Share-based payments**

The costs of equity-settled share-based payments are recognised in the income statement with a corresponding increase in equity over the vesting period as services are provided to the Company. The charge is based on the fair value of the equity instrument granted and the number of equity instruments that are expected to vest.

The fair value is measured at grant date and takes account of vesting conditions that relate to the market price of the ultimate parent company's shares. In order to determine the value of the instrument a pricing model relevant to the type of instrument is used.

The costs of cash-settled share-based payments are recognised in the income statement with a corresponding increase in equity over the vesting period as services are provided to the Company. The charge is based on the fair value of the liability at each reporting date, with any changes in fair value recognised in the income statement.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

**Exceptional items**

Items which are material by size and/or by nature and are non recurring are presented as exceptional items within their relevant income statement category. The separate reporting of exceptional items helps provide an indication of the Company's underlying business performance. Events which may give rise to exceptional items include gains or losses on disposal of businesses, the restructuring of businesses, the integration of new businesses, asset impairments and the subsequent recognition of deferred tax assets on prior year acquisitions.

**Dividends**

Dividends are recognised in the financial statements as follows:

Interim dividends are recognised as a distribution from retained earnings in the period in which they are paid.

Final dividends are recognised as a distribution from retained earnings in the period in which they are declared at the general meeting.

**Financial instruments**

In accordance with the requirements of IAS 32 and IAS 39, financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

* **Trade receivables:** These are recognised and carried at the original invoice amount less an allowance for any non-collectible amounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off to the income statement when identified.

* **Share capital:** Ordinary shares are classified as equity.

* **Cash and cash equivalents**: These comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

* **Interest-bearing loans and borrowings:** All interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Financial risk management**

**Foreign exchange risk**

The Company is not significantly exposed to the effects of fluctuations in exchange rates since all income is in sterling and costs denominated in foreign currency, principally the euro, represent less than 5% of all expenditure. The Company maintains an account in euros to hedge the Company's limited exposure to purchases denominated in european currency, and any gains or losses on the retranslation of this account help to offset increases or decreases in the sterling equivalent value of foreign purchases. At the year end, the balance on this account was £537,295.

**Interest rate risk**

The Company has both interest-bearing assets and interest-bearing liabilities, subject to floating rates.

Short-term finance is principally obtained from a sterling bank overdraft, with interest charged at a rate linked to the Bank of England base rate.

**Price risk**

Fuel represents one of the major costs that the Company faces. Price risk is minimised as significant increases in the fuel price can be passed onto customers via a fuel surcharge mechanism common throughout the express delivery industry.

**Credit risk**

**Trade receivables**

The Company has no significant concentrations of credit risk. The Company's exposure is limited by being spread across a wide range of industry sectors, with the most significant being the high tech sector, which generates roughly 20% of Company revenue. FedEx, the world's leading express delivery company, accounted for less than 9% of revenue, and no other customer accounts for over 5%. The Company has implemented policies that require appropriate credit checks on potential customers before sales commence.

**Franchise receivables**

Franchise receivables represent both short and long-term amounts advanced by the Company, the recoverability of which is dependent on the trading performance of the individual franchise and that of the Company, and the economy in general.

**Liquidity risk**

The Board reviews both the long and short-term financing requirements of the Company to ensure that there are sufficient available funds both for the day-to-day operations of the Company and for planned capital investments.

## 2 *Exceptional items*

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Franchise-related costs | | |
| - Provision against amounts relating to prior years | 1,543 | 3,200 |
| - Conversion costs including claims | 2,180 | - |
| Management restructuring | 797 | - |
| **Exceptional items** | 4,520 | 3,200 |

*Exceptional costs totalled £4,520,000 (2005: £3,200,000), comprising £1,880,000 to cover converting underperforming franchise sites to corporate* sites in the year to 31 March 2006, and £300,000 in relation to claims from prior franchisees. Management restructuring costs of £797,000 relate to the departure of Paul Carvell as Chief Executive and a number of significant changes to the management team following the appointment of Guy Buswell, after deduction of related share-based credits.

The remaining franchise related costs represent a provision of £1,543,000 (2005: £3,200,000) against amounts owed by certain franchises.

## 3 Operating profit

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| The following items have been charged/(credited) in arriving at operating profit: | | |
| Employee benefits expense (note 5) | **40,298** | 34,635 |
| Cost of inventories recognised (included in cost of sales) | **6,896** | 4,715 |
| Depreciation of owned property, plant and equipment (notes 9, 10) | **4,443** | 3,931 |
| Amortisation of intangibles (included in administrative expenses) (note 8) | **231** | 246 |
| Other operating lease rentals payable | | |
| - Plant and machinery | **5,923** | 5,147 |
| - Other | **3,367** | 2,502 |
| *Repairs and maintenance expenditure on property, plant and equipment* | **1,752** | 1,498 |
| Operating lease rentals receivable | | |
| - Plant and machinery | **(833)** | (829) |
| - Other | **(479)** | (225) |
| (Profit)/loss on disposal of fixed assets | **204** | (23) |
| Trade receivables impairment (included in administrative expenses) | **1,079** | 760 |
| Franchise receivables impairment (included in administrative expenses) | **5,296** | 4,107 |
| Investment property income | **(220)** | (220) |

***Services provided by the Company's auditor***

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| During the year the Company obtained the following services from the Company's auditor at costs as detailed below: | | |
| Audit services - statutory audit | **90** | 50 |
| Other assurance services | **14** | - |
| Tax compliance services | **76** | 45 |
| | **180** | 95 |

## 4 Finance costs - net

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Interest receivable on amounts due from franchises | **407** | 409 |
| Interest payable - bank overdraft | **(321)** | (198) |
| ***Finance costs - net*** | **86** | 211 |

**5 Employees and directors**

**Employee benefit expense for the Company during the year (including directors)**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Wages and salaries | 36,958 | 30,862 |
| Social security costs | 3,387 | 3,208 |
| Other pension costs * | 617 | 565 |
| Share-based payments | (664) | 933 |
| | 40,298 | 34,635 |

* Other pension costs all relate to defined contribution schemes.

| | 2006 Number | 2005 Number |
|---|---|---|
| **Average monthly number of persons employed (including directors)** | | |
| Administration and management | 165 | 165 |
| Drivers | 1,768 | 1,524 |
| | 1,933 | 1,689 |

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Key management compensation** | | |
| Salaries and short-term employee benefits | 938 | 989 |
| Post-employment benefits | 82 | 98 |
| Termination benefits | 312 | - |
| Share-based payments | (213) | 198 |
| | 1,119 | 1,285 |

The key management figures above include the executive board directors as detailed below :

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Directors' compensation** | | |
| Aggregate emoluments | 788 | 989 |
| Post-employment benefits | 72 | 98 |
| Termination benefits | 312 | - |
| Share-based payments | (193) | 198 |
| | 979 | 1,285 |

The highest paid director was paid £273,000 during the year (2005: £264,000). In addition, Company pension contributions of £12,000 were made to a money purchase pension scheme (£2005: £26,000).

Three directors (2005: three) hold money purchase pension schemes which are sponsored by the Company. The assets of the plans are held in independently administered funds. The pension costs charged in the income statement represent contributions payable by the Company to the plans together with the administration charges of the plans.

Details of shares exercised by directors during the year are included within the Directors' Report.

## 6 Taxation

**Analysis of charge in period**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Current tax - current year | **830** | 4,737 |
| *Current tax - adjustment in respect of prior years* | **440** | (93) |
| Deferred tax (note 16) - current year | **(195)** | (86) |
| Deferred tax (note 16) - prior years | **66** | 28 |
| **Taxation** | **1,141** | 4,586 |

The differences between the total current tax shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax are explained below:

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Profit on ordinary activities before tax | **2,685** | 16,610 |
| Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005:30%) | **805** | 4,983 |
| **Effects of:** | | |
| Expenses not deductible for tax purposes | **(170)** | 84 |
| Group relief claimed | **-** | (416) |
| Adjustment in respect of prior years | **506** | (65) |
| **Total tax charge** | **1,141** | 4,586 |

Additionally, £658,000 of current tax has been credited (2005: £Nil) directly to equity in respect of share options.

## 7 Dividends

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Final 2005 paid: £14,922 (2004: £13,604) per £1 share | **14,922** | 13,604 |
| | **14,922** | 13,604 |

## 8 Intangible assets

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Cost** | | |
| At 1 April | **1,410** | 1,183 |
| Additions | **176** | 227 |
| **At 31 March** | **1,586** | 1,410 |
| **Aggregate amortisation** | | |
| At 1 April | **975** | 729 |
| Charge for the year | **231** | 246 |
| ***At 31 March*** | **1,206** | 975 |
| **Net book value at 31 March** | **380** | 435 |
| Net book value at 1 April | 435 | 454 |

All amortisation charges in the year have been charged through administrative expenses.

Computer software has a useful economic life of between 3 and 4 years.

## 9 Investment properties

| | **2006** | 2005 |
|---|---|---|
| | **£'000** | £'000 |
| **Cost** | | |
| At 1 April and 31 March | **1,656** | 1,656 |
| ***Accumulated depreciation*** | | |
| At 1 April | **514** | 481 |
| Charge for the year | **33** | 33 |
| **At 31 March** | **547** | **514** |
| **Net book value at 31 March** | **1,109** | 1,142 |
| Net book value at 1 April | 1,142 | 1,175 |

Investment properties are accounted for under the cost model, at cost less accumulated depreciation and accumulated impairment losses and are depreciated over fifty years on a straight line basis.

The property was valued on the basis of Market Value at £3.6m, primarily derived using comparable recent market transactions on arm's length terms. The valuation was carried out in accordance with the RICS Appraisal and Valuation Standards.

## 10 Property, plant and equipment

| | **Freehold land and buildings £'000** | **Short leasehold premises £'000** | **Motor vehicles plant and equipment £'000** | **Computer equipment £'000** | **Total £'000** |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| *At 1 April 2005* | *22,110* | *801* | *15,542* | *10,120* | *48,573* |
| Additions | 279 | 736 | 3,047 | 1,713 | 5,775 |
| Disposals | - | (154) | (2,151) | (16) | (2,321) |
| **At 31 March 2006** | **22,389** | **1,383** | **16,438** | **11,817** | **52,027** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2005 | 2,179 | 318 | 8,106 | 5,689 | 16,292 |
| Charge for the year | 316 | 132 | 1,638 | 2,324 | 4,410 |
| Disposals | - | (52) | (1,335) | (15) | (1,402) |
| **At 31 March 2006** | **2,495** | **398** | **8,409** | **7,998** | **19,300** |
| **Net book value at 31 March 2006** | **19,894** | **985** | **8,029** | **3,819** | **32,727** |

| | Freehold land and buildings £'000 | Short leasehold premises £'000 | Motor vehicles plant and equipment £'000 | Computer equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 April 2004 | 21,383 | 737 | 14,020 | 7,002 | 43,142 |
| Additions | 727 | 64 | 2,143 | 3,222 | 6,156 |
| Disposals | - | - | (621) | (104) | (725) |
| **At 31 March 2005** | 22,110 | 801 | 15,542 | 10,120 | 48,573 |
| **Accumulated depreciation** | | | | | |
| At 1 April 2004 | 1,889 | 266 | 7,188 | 3,706 | 13,049 |
| Charge for the year | 290 | 52 | 1,481 | 2,075 | 3,898 |
| Disposals | - | - | (563) | (92) | (655) |
| **At 31 March 2005** | 2,179 | 318 | 8,106 | 5,689 | 16,292 |
| **Net book value at 31 March 2005** | 19,931 | 483 | 7,436 | 4,431 | 32,281 |

**11 Inventories**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Fuel stock | 167 | 142 |

The Company consumed £6,896,000 (2005: £4,715,000) of inventories during the year.

**12 Trade and other receivables**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Trade receivables, net of provisions for impairment | 31,215 | 32,461 |
| *Franchise receivables, net of provisions for impairment* | 143 | 2,824 |
| Amounts owed by group undertakings | 20,130 | 15,058 |
| Other debtors | 120 | 535 |
| Prepayments and accrued income | 2,248 | 1,904 |
| | 53,856 | 52,782 |
| Less: non-current franchise receivables | (143) | (1,547) |
| | 53,713 | 51,235 |

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

**13 Cash and cash equivalents**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Cash at bank and in hand | 1,435 | - |

The effective interest rate on the cash and bank balances was 4.1% (2005: 4.1%)

**14 Borrowings**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **Current : Bank loans and overdrafts due within one year or on demand** | | |
| Bank overdrafts | - | 2,207 |

The effective interest rate on the bank overdrafts was approximately 5.1% (2005: 5.0%), accruing on a daily basis.

**15 Trade and other payables - current**

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Trade payables | 10,467 | 7,728 |
| Amounts owed to franchises | 2,329 | 2,663 |
| Amounts owed to group undertakings | 66,131 | 49,148 |
| Accruals | 5,405 | 4,061 |
| Deferred income | 136 | 179 |
| Other creditors | 26 | - |
| Other taxation and social security | 3,160 | 3,165 |
| | 87,654 | 66,944 |

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

**16 Deferred tax**

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2005: 30%).

The movement on the deferred tax account is as shown below:

| Deferred tax asset/(liability) | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **At 1 April** | 364 | (724) |
| Income statement credit/(charge) | 129 | 58 |
| Taken to equity | (1,527) | 1,030 |
| **At 31 March** | (1,034) | 364 |

| Deferred tax asset | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **At 1 April** | 1,836 | 541 |
| *Income statement credit/(charge)* | (214) | 265 |
| Taken to equity | (1,527) | 1,030 |
| **At 31 March** | 95 | 1,836 |

| Deferred tax (liability) | 2006 £'000 | 2005 £'000 |
|---|---|---|
| **At 1 April** | (1,472) | (1,265) |
| Income statement credit/(charge) | 343 | (207) |
| Taken to equity | - | - |
| **At 31 March** | (1,129) | (1,472) |

Deferred tax liabilities on accelerated capital allowances are calculated on the difference between the accounting net book value of the assets and their carrying amount for tax purposes.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

The deferred income tax credited/(debited) to equity during the year is as follows:

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Deferred tax on share based payments | (1,527) | 1,030 |

**17 Provisions**

| | Property leases £'000 | Vacant properties £'000 | Claims £'000 | Franchise related costs £'000 | Total £'000 |
|---|---|---|---|---|---|
| **At 1 April 2005** | 411 | - | - | - | 411 |
| Income statement charge/(credit) | 99 | 36 | 300 | 1,880 | 2,315 |
| Utilised in the year | (80) | - | - | (1,704) | (1,784) |
| **At 31 March 2006** | 430 | 36 | 300 | 176 | 942 |

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

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Current | 691 | 69 |
| Non-current | 251 | 342 |
| | 942 | 411 |

**Property leases**

The provision for property leases relates to dilapidations on properties under leases expiring within 1 and up to 13 years. The properties have been inspected by the Business Post Group Property Manager, and estimates made for the anticipated dilapidation expenditure to be incurred prior to sub-letting, or reversion of the lease.

**Vacant properties**

The Company holds leases over two vacant properties, both of which are on the market with a view to sub-letting. Provision is made for rental during the anticipated time that these properties will be on the market. In determining this provision, the cash flows have been discounted at the Company's pre-tax borrowing rate.

**Claims**

The provision for claims relates to £300,000 of legal actions from previous franchisees (note 2)

**Franchise-related costs**

*Franchise-related costs represent a provision to cover the cost of converting underperforming franchise sites to corporate sites.*

**18 Called up share capital**

| | **2006** | 2005 |
|---|---|---|
| | **£'000** | £'000 |
| Authorised, issued, allotted and fully paid | | |
| *1,000 Ordinary shares of £1 each* | 1 | 1 |

**19 Retained earnings**

| | **2006** | 2005 |
|---|---|---|
| | **£'000** | £'000 |
| **At 1 April** | **16,697** | 16,315 |
| Retained profit for the financial year | **1,544** | 12,024 |
| Employees' share option scheme: | | |
| - value of employee services | **(536)** | 932 |
| Tax on items taken directly to equity | **(869)** | 1,030 |
| Dividends paid to shareholders (note 7) | **(14,922)** | (13,604) |
| **At 31 March** | **1,914** | 16,697 |

## 20 Cash flow from operating activities

The reconciliation of profit to cash generated from operations is as follows:

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Profit for the financial year | **1,544** | 12,024 |
| Taxation | **1,141** | 4,586 |
| Interest payable | **321** | 198 |
| Interest receivable | **(407)** | (409) |
| Exceptional items | **4,520** | 3,200 |
| Depreciation and amortisation | **4,843** | 4,177 |
| Profit on disposal of property, plant and equipment | **204** | (23) |
| (Increase)/decrease in inventories | **(25)** | 8 |
| *Increase in trade and other receivables* | **(4,965)** | (20,024) |
| Increase in trade and other payables | **19,913** | 17,074 |
| Increase in provisions | **531** | 42 |
| **Cash generated from operations** | **27,620** | 20,853 |

## 21 Financial instruments

**Short term debtors and creditors**

Short term debtors and creditors have been excluded.

**Interest rate risk profile of financial liabilities**

The interest risk profile of the Company's financial liabilities at 31 March 2006 was:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Book value £'000** | **Floating rate financial liabilities £'000** | Book value £'000 | Floating rate financial liabilities £'000 |
| Bank overdraft | - | - | 2,207 | 2,207 |

All financial liabilities are sterling denominated.

All the Company's creditors falling due within one year (other than bank and other borrowings) are excluded from the above table either due to the exclusion of short term items or because they do not meet the definition of a financial liability, such as tax balances.

**Maturity profile of financial assets**

The maturity profile of the carrying amount of the Company's non-current financial assets at the end of the year was as follows:

| | 2006 Floating rate £'000 | 2005 Floating rate £'000 |
|---|---|---|
| Between one and two years | **143** | 705 |
| Between two and five years | - | 466 |
| After five years | - | 376 |
| | **143** | 1,547 |

Financial assets comprise loans to franchises. Debtors due within one year are excluded from the above table as they are of a short term nature.

***Maturity profile of financial liabilities***

The maturity profile of the carrying amount of the Company's non-current financial liabilities at the end of the year was as follows:

| | 2006 Floating rate £'000 | 2005 Floating rate £'000 |
|---|---|---|
| Between one and two years | 60 | 90 |
| Between two and five years | 85 | 160 |
| After five years | 106 | 92 |
| | 251 | 342 |

Financial liabilities comprise provisions (note 17). Creditors due within one year are excluded from the above table as they are of a short term nature.

**Borrowing facilities**

The Company has undrawn borrowing facilities of £12m under a group arrangement (2005: £10m). These facilities are in place until 31 March 2007.

**Fair value of financial assets and liabilities**

The following table provides a comparison by category of the carrying amounts and fair values of the Company's financial assets and liabilities at 31 March 2006 and 2005. Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates. Set out below is a summary of the methods and assumptions used for each category of financial instrument.

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Book value £'000 | Fair value £'000 | Book value £'000 | Fair value £'000 |
| **Primary financial instrument held or issued to finance the Group's operations:** | | | | |
| Short term borrowings | - | - | (2,207) | (2,207) |
| Cash at bank and in hand | 1,435 | 1,435 | - | - |
| Interest earning long term debtors | 143 | 143 | 1,547 | 1,547 |

**Financial instruments held for trading purposes**

The Company does not trade in financial instruments.

**Currency analysis of monetary net assets**

The only monetary assets or liabilities that are denominated in a foreign currency are euro bank account balances of £537,000 (2005: £573,000)

**22 Operating lease commitments - minimum lease payments**

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Land and buildings £'000 | Vehicles, plant and equipment £'000 | Land and buildings £'000 | Vehicles, plant and equipment £'000 |
| **Commitments under non-cancellable operating leases expiring:** | | | | |
| Within one year | 3,129 | 5,780 | 2,261 | 5,498 |
| Later than one year and less than five years | 8,691 | 8,473 | 6,261 | 6,177 |
| After five years | 5,643 | - | 4,335 | - |
| **At 31 March** | 17,463 | 14,253 | 12,857 | 11,675 |

The Company leases various properties under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Company also leases vehicles and office equipment under non-cancellable operating lease agreements.

The total of future minimum sub-lease payments to be received under non-cancellable sub-leases at the balance sheet date was :

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Total minimum sub-lease payments receivable | 1,812 | 2,032 |

## 23 Contingent liabilities

The Company acts as guarantor for an £8m (2005: £9m) 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 £12m group borrowing facility (2005:£10m).

## 24 Capital and other financial commitments

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Contracts placed for future capital expenditure not provided in the financial statements | 237 | 394 |

## 25 Analysis of net cash

| | At 1 April 2004 £'000 | Cash Flow £'000 | At 1 April 2005 £'000 | Cash Flow £'000 | At 31 March 2006 £'000 |
|---|---|---|---|---|---|
| Cash at bank and in hand | 1,618 | (1,618) | - | 1,435 | 1,435 |
| Bank overdrafts | - | (2,207) | (2,207) | 2,207 | - |
| **Net cash** | 1,618 | (3,825) | (2,207) | 3,642 | 1,435 |

## 26 Related party transactions

Key management compensation is disclosed in note 5.

Intercompany balances arise from recharges of costs from and to other group companies. Year end balances arising from these recharges are as follows:

| | 2006 £ | 2005 £ |
|---|---|---|
| **Receivables from related parties** | | |
| Parent undertaking | - | - |
| Fellow group undertakings | 20,130 | 15,058 |
| **Payables to related parties** | | |
| Parent undertaking | (58,128) | (42,544) |
| Fellow group undertakings | (8,003) | (6,604) |

## 27 Ultimate parent undertaking and controlling party

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

P Kane, a director of the Company and of the parent undertaking, 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 45.9% of the issued share capital of the parent undertaking. In addition, his brother M Kane controls a further 12.8% of the issued share capital of the parent undertaking.

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.

**28 Transition to IFRS**

The Company adopted IFRS on 1 April 2004, with the exception of IAS 32 and IAS 39 which were adopted on 1 April 2005. This note sets out the impact of IFRS on the Financial Statements.

**Income Statement**

| | Transition Notes | Year ended 31 March 2005 UK GAAP £'000 | Effect of transition to IFRS £'000 | IFRS £'000 |
|---|---|---|---|---|
| Revenue | | 195,684 | - | 195,684 |
| Cost of sales | 1 | (151,648) | (64) | (151,712) |
| Gross profit | | 44,036 | (64) | 43,972 |
| Administrative expenses | 1,2 | (26,623) | (950) | (27,573) |
| Operating profit before exceptional item | | 20,613 | - | 20,613 |
| Exceptional administrative expenses | | (3,200) | - | (3,200) |
| Operating profit | | 17,413 | (1,014) | 16,399 |
| Net interest receivable | | 211 | - | 211 |
| Profit before taxation | | 17,624 | (1,014) | 16,610 |
| Tax on profit on ordinary activities | 3 | (4,875) | 289 | (4,586) |
| Profit for the period | | 12,749 | (725) | 12,024 |

**Balance Sheet**

| | Transition notes | UK GAAP £'000 | At 31 March 2005 Effect of transition to IFRS £'000 | IFRS £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Non-current assets | | | | |
| Intangible assets | 4 | - | 435 | 435 |
| Investment properties | 5 | - | 1,142 | 1,142 |
| Property, plant and equipment | 4,5 | 33,858 | (1,577) | 32,281 |
| Trade and other receivables | 6 | - | 1,547 | 1,547 |
| Deferred tax assets | | - | 1,836 | 1,836 |
| | | 33,858 | 3,383 | 37,241 |
| Current assets | | | | |
| Inventories | 7 | - | 142 | 142 |
| Trade and other receivables | 6,7 | 52,924 | (1,689) | 51,235 |
| | | 52,924 | (1,547) | 51,377 |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Borrowings | | (2,207) | - | (2,207) |
| Trade and other payables | 1,8 | (81,312) | 14,368 | (66,944) |
| Current tax liabilities | 3 | (1,052) | 166 | (886) |
| Provisions | 9 | - | (69) | (69) |
| | | (84,571) | 14,465 | (70,106) |
| **Net current assets** | | (31,647) | 12,918 | (18,729) |
| Non-current liabilities | | | | |
| Deferred tax liabilities | 3 | (1,472) | - | (1,472) |
| Provisions | 9 | (411) | 69 | (342) |
| | | (1,883) | 69 | (1,814) |
| **Net assets** | | 328 | 16,370 | 16,698 |
| **Shareholders' equity** | | | | |
| Share capital | | 1 | - | 1 |
| Retained earnings | 1,3,8 | 327 | 16,370 | 16,697 |
| | | 328 | 16,370 | 16,698 |

**Balance Sheet at 1 April 2004**
(Date of transition to IFRS)

| | Transition notes | UK GAAP £'000 | At 1 April 2004 Effect of transition to IFRS £'000 | IFRS £'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Non-current assets | | | | |
| Intangible assets | 4 | - | 454 | 454 |
| Investment properties | 5 | - | 1,175 | 1,175 |
| *Property, plant and equipment* | 4,5 | *31,723* | *(1,629)* | *30,094* |
| Trade and other receivables | 6 | - | 4,800 | 4,800 |
| Deferred tax assets | | - | 541 | 541 |
| | | 31,723 | 5,341 | 37,064 |
| Current assets | | | | |
| Inventories | 7 | - | 150 | 150 |
| Trade and other receivables | 6,7 | 36,108 | (4,950) | 31,158 |
| Cash and cash equivalents | | 1,618 | - | 1,618 |
| | | 37,726 | (4,800) | 32,926 |
| **Liabilities** | | | | |
| Current liabilities | | | | |
| Trade and other payables | 1,8 | (63,002) | 13,132 | (49,870) |
| Current tax liabilities | 3 | (2,312) | 142 | (2,170) |
| Provisions | 9 | - | (99) | (99) |
| | | (65,314) | 13,175 | (52,139) |
| **Net current assets** | | (27,588) | 8,375 | (19,213) |
| Non-current liabilities | | | | |
| Deferred tax liabilities | 3 | (1,265) | - | (1,265) |
| Provisions | 9 | (369) | 99 | (270) |
| | | (1,634) | 99 | (1,535) |
| **Net assets** | | 2,501 | 13,815 | 16,316 |
| **Shareholders' equity** | | | | |
| Share capital | | 1 | - | 1 |
| Retained earnings | 1,3,8 | 2,500 | 13,815 | 16,315 |
| | | 2,501 | 13,815 | 16,316 |

**Transition notes**

**1 Holiday Pay**

Under UK reporting, the Company did not account for holiday pay accruals unless legally obliged to make cash settlement. Under IFRS, IAS 19 explicitly requires that the Company make an appropriate provision for the cost of holiday entitlements not taken at the balance sheet date. The impact of applying this change is a £472,000 reduction in net assets at 1 April 2004 and £554,000 at 31 March 2005.

**2 Share-based payments**

UK GAAP required that there was no charge to the income statement for share options where the exercise price was equal to the market price at the grant date, or for employee sharesave schemes. In accordance with IFRS 2 'Share-based Payments', all share-based payments, including share option costs are recognised as an expense over the vesting period.

For the year ended 31 March 2005, application of IFRS 2 results in a pre-tax charge to the income statement of £933,000.

**3 Taxation**

The taxation creditor has been restated for the IFRS adjustment in respect of holiday pay. This has resulted in an increase in net assets of £205,000 at 1 April 2004 and £166,000 at 31 March 2005.

Additionally, the accounting for share-based payments as required under IFRS has resulted in the recognition of a deferred tax asset of £541,000 at 1 April 2004, and £1,836,000 at 31 March 2005

**4 Intangible assets**

Under UK GAAP, capitalised computer software was included within property, plant and equipment. In accordance with IFRS, capitalised software not integral to plant and equipment is classified as an intangible asset. The net book value of computer software reclassified as intangible assets was £454,000 at 1 April 2004 and £435,000 at 31 March 2005.

**5 Investment properties**

IFRS significantly widens the definition of investment properties. Investment properties previously disclosed within property, plant and equipment has now been separately reclassified. The net book value of investment properties reclassified was £1,175,000 at 1 April 2004 and £1,142,000 at 31 March 2005.

**6 Trade and other receivables**

Under UK GAAP, debtors due in excess of one year was detailed in the notes to the accounts whereas IFRS requires that current and non-current assets are separately presented on the face of the balance sheet.

**7 Inventories**

Inventories previously disclosed within other debtors and prepayments have been reclassified. This resulted in £150,000 being reclassified at 1 April 2004 and £141,602 at 31 March 2005.

**8 Dividends**

IFRS requires dividends to be recognised within equity in the period in which they are approved. Under UK GAAP, dividends were recognised within the income statement in the period in which they were declared. The impact of applying this change is a £13,604,000 increase in net assets at 1 April 2004 and £14,922,000 at 31 March 2005.

**9 Provisions**

Under UK GAAP, Company provisions were not disclosed according to their expected usage date. IFRS requires that provisions should be classified into current liabilities and non-current liabilities. As a result, £99,000 of provisions have been reclassified as current liabilities in the balance sheet as at 1 April 2004 and £69,000 at 31 March 2005.

**Key cash flow statement adjustments**

Under UK GAAP, the Company did not publish a cash flow statement as permitted under Financial Reporting Standard No. 1 (1996), as it is a wholly owned subsidiary of a parent company whose financial statements are publicly available. No such exemption is available under IFRS.

*There has been no restatement of cash and cash equivalents as a result of implementing IFRS.*