South East London & Kent Bus Company Limited

Financial statements for period ended 30 April 2011

Registered number 2328595

Contents

Directors and advisers
For the period ended 30 April 2011

Directors

C Brown
R G Andrew
S Greer
R Montgomery
A M Threapleton
M J Vaux
L B Warneford

Company Secretary and registered office

M J Vaux
Daw Bank
Stockport
Cheshire
SK3 0DU

Independent auditors

PricewaterhouseCoopers LLP
Chartered accountants and registered auditors
141 Bothwell Street
Glasgow
G2 7EQ

Bankers

Bank of Scotland
38 St Andrew Square
Edinburgh
EH2 2YR

Royal Bank of Scotland
St Andrew Square
Edinburgh
EH2 2YR

Directors' report

For the period ended 30 April 2011

The directors present their report on the affairs of the Company, together with the financial statements and auditors' report, for the 393 days ended 30 April 2011

Principal activity

The Company's principal activity is the operation of buses in the South East London and Kent market

The directors have received a guarantee of financial support from Stagecoach Group plc and therefore the directors consider the going concern assumption for the preparation of these financial statements is appropriate

Business environment

The Company and fellow subsidiaries, East London Bus & Coach Company Limited (ELBCC) and East London Bus Limited (ELB) provide public transport services, primarily under contract to Transport for London (TfL), under a number of 5 year contracts with varying termination dates, which are extendable if qualitative metrics are achieved for a further 2 years at the Group's discretion

TfL offer around 800 such contracts, and most of the significant national transport operators are active to a greater or lesser extent in the London Bus marketplace

TfL monitors the activities of operators closely, with particular emphasis on timekeeping and customer service standards The contracts it awards generally have an incentive/penalty regime to promote quality delivery

Business review

The directors are satisfied that the financial statements give a fair review of the development of the business during the period and of its position at the period end

The Company showed a 4% decrease in operating profit (2010 improvement 19%) before exceptional items in the period mainly as a result of a 7% increase in operating costs (2010 1 3% increase in revenues) However the profit of the current period was reduced by the following factors

- lower than expected quality incentive contributions (QICs revenue) arising from the increased level of congestion and roadworks on certain bus routes

- higher costs in maintaining the bus fleet to achieve the high levels of service expected

During the prior period, the group of companies headed by East London Bus Group Holdings Limited ("the Group") began an operational restructuring process to assist in its refinancing arrangements and these one off costs incurred outside the normal operations of the business have been apportioned between Group companies and classified as exceptional

Business review (continued)

On 14 October 2010, Stagecoach Bus Holdings Limited, a subsidiary of Stagecoach Group plc ("the Group"), acquired the entire issued share capital and 100% of the voting rights of the Company , from East London Bus Group Ventures Limited, along with three other companies formerly owned by East London Bus Group Ventures Limited

We have made significant progress in restructuring the acquired business to both maximise synergies with the wider Stagecoach Group and tackle the structurally high cost base Our first step was to put in place a new management team, comprising Stagecoach personnel from other areas and also incumbent members of the East London management team The head office accounting and administration structure of the business was then reduced, with all accounting functions being integrated with the Stagecoach Shared Service Centre in Stockport

We have held discussions with the employee trade union representatives and are pleased with the constructive response to our plans to improve employee productivity and reduce unit costs significantly, and in doing so secure the business and jobs for the future The results include the financial cost of implementing these changes in working terms and conditions and we will see material reduction in future payroll costs

We have also undertaken a full review of the integrity of the financial models supporting the contract costing and budgeting for bids and set a realistic return criteria for future tenders It will take some time for the existing low margin contracts to work through to re-tender, and the business has already lost some sizeable contracts which will impact from the year to 30 April 2012

From 15 October 2010, the Company is a 100% subsidiary of Stagecoach Group plc and the accounting reference date was changed from 31 March to 30 April The financial statements are presented for the 393 days ended 30 April 2011 (2010 369 days ended 2 April 2010)

Training and development

The Company has consistently sought to recruit and retain the best employees in its markets

In order to ensure that it's staff are properly trained and able to offer the best customer service, the Company operates a minimum qualification programme of National Vocational Qualification The programme focuses on key issues such as customer service, health and safety, conflict resolution, disability awareness and vehicle defects reporting

Future outlook

The bus passenger environment in London is expected to continue to provide opportunity for growth Bus operators are expected to continue to invest in new vehicles and improve profitability through operational efficiencies

The directors believe the continued investment in our fleet, the operational and wages restructuring, commitment to staff training and continuous monitoring of operational efficiency will enable the Company to maintain its current level of performance in the future

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 management and reporting of risk is undertaken at Group level, rather than at an individual business unit level The principal risks and uncertainties of Stagecoach Group plc, which includes those of the Company, are discussed in the Group's 2011 annual report (note 3 10 of the Operating and Financial Review), which does not form part of this report The principal risks and uncertainties for the Group that are also applicable to the Company are

Fuel price fluctuations

The cost of fuel is a significant expense for the Group and the price can fluctuate widely in the market place The Group seeks to minimise its exposure in this area through the use of fuel hedge contracts by fixing the price of estimated fuel purchases throughout the term of the contracts with TfL

Financial risk management

The Company's activities expose it to a variety of financial risks including the effects of changes in interest rates, credit risk and commodity prices The effects of changes in interest rates and commodity prices are managed at a group level by a central Group treasury function The Company has implemented policies, which require appropriate credit checks to be performed on potential customers before sales are made All credit checks are performed centrally by Stagecoach Services Limited, a fellow group company

Key performance indicators ("KPIs")

The directors of Stagecoach Group plc manage the Group's performance on a divisional basis For this reason, the Company's directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company The development, performance and position of the UK Bus (London) Division of Stagecoach Group plc, which includes the Company, is discussed in the Group's 2011 annual report (paragraph 3 7 2 of the Operating and Financial Review), which does not form part of this report

Strategy

The strategy of the Company is aligned to the acquisition of further route contracts within London and the operation of the portfolio to the highest quality standards

Results and dividends

The loss on ordinary activities after taxation amounted to £53,000 (369 days ended 2 April 2010 profit £4,451,000)

No dividend (369 days ended 2 April 2010 £Nil) was declared or paid in the period

Directors and their interests

The directors who held office during the period under review and up to the date of approval of these financial statements were

N Barrett (resigned 15 April 2010)
P R Cox (resigned 12 November 2010)
M Perusat (resigned 14 October 2010)
J Carmichael (resigned 12 November 2010)
R Candler (resigned 1 September 2009)
M Ormes (appointed 12 March 2010, resigned 12 November 2010)
C Wright (appointed 12 March 2010, resigned 12 November 2010)
S Rennie (resigned 15 February 2010)
P Sumner (resigned 9 April 2010)
R A Benns (appointed 14 October 2010, resigned 12 November 2010)
C Brown (appointed 14 October 2010)
R G Andrew (appointed 12 November 2010)
S Greer (appointed 12 November 2010)
R Montgomery (appointed 12 November 2010)
A M Threapleton (appointed 12 November 2010)
M J Vaux (appointed 12 November 2010)
L B Warneford (appointed 12 November 2010)

Company Secretary

P R Cox resigned from the office of Company Secretary on 14 October 2010 M J Vaux was appointed Company Secretary on 12 November 2010

Directors' indemnities

The Company maintains Directors' and Officers' Liability Insurance in respect of legal action that might be brought against its directors The Company has indemnified each of its directors and other officers of the Company against certain liabilities that may be incurred as a result of their offices

Disabled persons

The Company recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirements that have to be met for certain grades of staff Wherever reasonable and practicable, the Company will retain newly disabled employees and at the same time provide fair opportunities for the career development of disabled people

Employee involvement

During the period under review, arrangements have been maintained whereby employees of the Company are systematically provided with information on matters of concern to them as employees Such matters have included the financial and economic factors affecting the performance of the Company and likely future developments Consultation with representatives of staff has also continued to take place on a regular basis, so that the views of employees can be taken fully into account in making decisions that are likely to affect their interests

Supplier payment policy

It is the Company's policy to settle the terms of payment with suppliers when agreeing each transaction or series of transactions, to ensure suppliers are aware of these terms and to abide by them Since 13 December 2010, responsibility for the payment of suppliers lies with Stagecoach Services Limited, a fellow group company Hence trade creditors outstanding at the period end represented Nil days' purchases (369 days ended 2 April 2010 6 days)

Fixed assets

In the opinion of the directors there is no material difference between the book value and current open market value of interests in land and buildings

Country of incorporation and domicile

The Company was incorporated and is domiciled in the UK The registration number of the Company is 2328595

Statement of disclosure of information to auditors

Each director, as at the date of this report, has confirmed that insofar as they 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, and they have taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their re-appointment will be proposed at the next Annual General Meeting of the Company

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the Company web site Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

By order of the Board

M J Vaux
Company Secretary

7 October 2011

Auditors' report

For the period ended 30 April 2011

Independent auditors' report to the members of South East London & Kent Bus Company Limited

We have audited the Company financial statements of South East London & Kent Bus Company Limited for the period ended 30 April 2011 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet, the Cash Flow Statement, the Accounting Policies and the related notes 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

Respective responsibilities of directors and auditors

As explained more fully in the statement of Directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 30 April 2011 and of it's loss and cash flows for the period then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Auditors' report (continued)
For the period ended 30 April 2011

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

Kenneth Wilson

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow

10 October 2011

Statements of comprehensive income and changes in equity

For the period ended 30 April 2011

Statement of comprehensive income

	Note	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
Revenue	3	**84,571**	78,856
Other operating income	3	**653**	1,052
Operating costs		**(81,122)**	(75,629)
Operating profit before exceptional costs	4	**4,102**	4,279
Exceptional items	5	**(4,213)**	(330)
Operating (loss)/profit before interest and taxation	5	**(111)**	3,949
Finance costs	7	**(919)**	(968)
Finance income	7	**456**	286
(Loss)/profit before taxation		**(574)**	3,267
Taxation	8	**521**	1,184
(Loss)/profit for the period		**(53)**	4,451

All activities relate to continuing operations

The notes on pages 15 to 37 form an integral part of these financial statements

Statement of changes in equity

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
At 29 March 2009	3,931	4,570	465	8,966
Comprehensive income				
Profit for the period	Nil	Nil	4,451	4,451
At 2 April 2010	3,931	4,570	4,916	13,417
Comprehensive income				
Loss for the period	Nil	Nil	(53)	(53)
At 30 April 2011	**3,931**	**4,570**	**4,863**	**13,364**

Balance sheet
As at 30 April 2011

	Note	30 April 2011 £'000	2 April 2010 £'000
Non current assets			
Property, plant and equipment	9	**23,883**	28,508
Deferred tax asset	15	**672**	124
		24,555	28,632
Current assets			
Inventories	10	**257**	245
Trade and other receivables	11	**22,051**	7,980
Cash and cash equivalents	12	**100**	82
		22,408	8,307
Total assets		**46,963**	36,939
Current liabilities			
Trade and other payables	13	**(32,704)**	(18,350)
Bank borrowings	14	**(610)**	Nil
		(33,314)	(18,350)
Non current liabilities			
Deferred tax liabilities	15	**(9)**	(598)
Provisions	17	**(276)**	(4,574)
		(285)	(5,172)
Total liabilities		**(33,599)**	(23,522)
Net assets		**13,364**	13,417
Equity			
Ordinary shares	18	**3,931**	3,931
Share premium account	18	**4,570**	4,570
Retained earnings		**4,863**	4,916
Total equity		**13,364**	13,417

The financial statements on pages 11 to 37 were approved by the board of directors on 7 October 2011 and were signed on its behalf by

Colin Brown
Director

Cash flow statement

For the period ended 30 April 2011

	Note	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
Cash flows from operating activities			
Operating profit before exceptional items		**4,102**	4,279
Exceptional items		**(991)**	(330)
Depreciation	9	**4,149**	4,152
Loss on sale of fixed assets		**88**	164
Increase in inventories		**(12)**	(103)
Decrease in trade and other receivables		**423**	1,030
Increase/(decrease) in payables		**1,305**	(1,484)
Decrease in provisions for liabilities and charges		**(4,298)**	(1,833)
Net cash flows from operating activities before tax		**4,766**	5,875
Tax paid		**Nil**	Nil
Net cash flow generated from operating activities after tax		**4,766**	5,875
Cash flows from investing activities			
Purchase of property, PSVs, plant and equipment		**(1,851)**	(6,411)
Proceeds from sale of property, PSVs, plant and equipment		**2,249**	1,547
Increase in amounts owed by group undertakings		**(14,494)**	(2,838)
Interest received		**456**	258
Net cash outflow from investing activities		**(13,640)**	(7,444)
Cash flows from financing activities			
Interest paid		**(919)**	(876)
Increase in amounts owed to group undertakings		**9,201**	2,487
Net cash used in financing activities		**8,282**	1,611
Net (decrease)/increase in cash and cash equivalents		**(592)**	42
Cash and cash equivalents at beginning of the period	12	**82**	40
Cash and cash equivalents at end of period		**(510)**	82

Cash flow statement (continued)

For the period ended 30 April 2011

For the purpose of the cash flow statement, cash and cash equivalent is represented by

	Note	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
Cash at bank and in hand	12	**100**	82
Bank overdraft included in current liabilities	14	**(610)**	Nil
		(510)	82

Notes to the financial statements
For the period ended 30 April 2011

1 Principal accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below These policies have been consistently applied throughout the period

1.1 Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates It also requires management to exercise its judgement in the process of applying the Company's accounting policies The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1 20

1 2 Segmental reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, which for this purpose has been identified as the Board of Directors

1 3 Functional and presentational currency
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The financial statements are presented in 'sterling' ('£'), which is the Company's functional and presentational currency

1.4 Property, plant and equipment
All public service vehicles are stated at fair value on the adoption of IFRS under the IFRS 1 transition rules Land and buildings and other fixed assets are shown at cost, net of depreciation and any provision for impairment

Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight-line basis over its estimated useful life, as follows

Freehold buildings	50 years
Leasehold properties	over the period of lease
Public service vehicles ('PSVs')	7 to 16 years
Plant and equipment	3 to 10 years
Motor cars and other vehicles	3 to 5 years
Furniture and fittings	3 to 10 years

1 Principal accounting policies (continued)

1.4 Property, plant and equipment (continued)

Freehold land is not depreciated

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains/(losses) in the income statement

1 5 Inventories

Inventories are stated at the lower of cost and net realisable value Provision is made for obsolete, slow moving or defective items where appropriate

1.6 Financial assets

The classification depends on the purpose for which the financial assets were acquired Management determines the classification of its financial assets at initial recognition The Company classifies its financial assets in the following category

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market Such assets are carried at amortised cost and gains and losses are recognised in the income statement They are included in current assets, except for maturities greater than 12 months after the balance sheet date These are classified as non-current assets The most significant financial assets under this category are 'trade and other receivables' and cash and cash equivalents

1.7 Trade receivables

Trade receivables, which generally have 30 - 60 day terms, are recognised and carried at original invoice amount less provision for impairment A provision for impairment of trade receivables is established when there is evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable

1 8 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks with original maturities of three months or less, and bank overdrafts Bank overdrafts are shown within borrowings in current liabilities on the balance sheet

1 Principal accounting policies (continued)

1.9 Ordinary shares

Ordinary shares are classified as equity An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities

1.10 Trade payables

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

1.11 Borrowings

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

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

1.12 Pensions and retirement benefit obligations

Certain employees of the Company are members of the East London & Selkent pension scheme, a defined benefit pension scheme that is also open to certain employees of other Group companies It is funded through payments to a trustee-administered fund, determined by periodic actuarial calculations

In accordance with IAS 19 as the Company is unable to identify its share of the underlying assets and liabilities in the scheme and as there is no contractual agreement or policy for charging the net defined cost for the plan as a whole to the participating entities, the contributions paid by the Company are accounted for as if the scheme was a defined contribution scheme

1.13 Provisions for liabilities and charges

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and it is probable that the Group will be required to settle that obligation and the amount has been reliably estimated Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to the present value where the effect is material The increase in the provision due to passage of time is recognised as interest expense

Insurance provision

The Group receives claims in respect of traffic accidents and employee claims The Group protects against the cost of such claims through third party insurance policies An element of the claims is not insured as a result of the "excess" of "deductible" on insurance policies

Provision is made on a discounted basis for the estimated cost to the Group to settle claims for incidents occurring prior to the balance sheet date

1 Principal accounting policies (continued)

1.13 Provisions for liabilities and charges (continued)

Insurance provision (continued)
The estimate of the balance sheet insurance provisions is based on an assessment of the expected settlement of known claims together with an estimate of settlement that will be made in respect of incidents occurring prior to the balance sheet date but for which claims have not yet been reported to the Group The provision is set after taking account of advice from third party actuaries

1.14 Revenue recognition

Revenue principally comprises of revenue from the operation of bus services in London and the South East of the United Kingdom Revenue is shown net of value-added tax, rebates and discounts Revenues incidental to the Company's principal activity (including advertising income) are reported as other operating income

(a) Sales of services
The Company recognises revenue when the amount of revenue can be reliably measured The Company bases its estimates on historical results Performance based incentives are recognised in the year in which they become certain by reference to data provided by TfL

(b) Interest income
Interest income is recognised on an accruals basis

1.15 Taxation

The tax expense represents the sum of the income tax charge for the period and deferred tax

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

Deferred tax assets and liabilities are generally recognised on all temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements However such assets and liabilities are not recognised if the temporary difference arises from initial recognition of goodwill, or from the initial recognition (other than a business combination) of other assets and liabilities that affects neither the accounting nor taxable profit or loss

Deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilised

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset or liability is settled

1 Principal accounting policies (continued)

1.15 Taxation (continued)
Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity Otherwise income tax is recognised in the income statement

1.16 Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease expense Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term

1.17 Dividend distribution
A dividend distribution is recognised as a liability in the financial period in which the payment of these dividends is approved by the Company's shareholders

1.18 Financial risk management
The Company's activities expose it to a variety of financial risks market risk (including the effects of changes in interest rates and fuel prices), credit risk and liquidity risk The Group uses derivative financial instruments to hedge certain risk exposures although these do not qualify for hedge accounting under IAS39 Risk management is carried out by the Executive Directors of subsidiary companies under policies approved by the Board of Directors The Group has a centralised treasury department whose primary role is to ensure that adequate liquidity is available to meet the Group's funding requirements as they arise The treasury operations are conducted in accordance with policies and procedures approved by the Board and are reviewed annually Financial instruments are only executed for hedging purposes and transactions that are speculative in nature are expressly forbidden Monthly reports are provided to senior management and are subject to periodic internal and external review

Market risk

i) Cash flow and fair value interest rate risk
The Company's interest rate risk arises from borrowings and all the Borrowings are repayable on demand with other Group Companies at fixed rates of interest However the Company has received a letter of support from the ultimate UK parent company stating that financial support will continue for at least a year after the date of signing these financial statements

At 30 April 2011 if external interest rates were 1% higher with all other variables held constant, the post tax profit would have been £5,000 lower (369 days ended 2 April 2010 £8,000 lower)

Notes to the financial statements (continued)
For the period ended 30 April 2011

1 Principal accounting policies (continued)

1 18 Financial risk management (continued)

ii) Credit risk

Credit risk arises from cash and cash equivalents and outstanding receivables The cash balance is usually kept to a minimum level and any excess used to reduce the Group's short term borrowings under the control of the Group Treasury department The majority of the Company's receivables are with fellow subsidiary companies

The majority of the Company's external receivables are with public organisations funded by the UK government and all receipts were received under agreed contractual terms Where cash is due from other third parties for services provided the amount outstanding outside the payment terms of 30 days credit was £Nil (2010 less than £2,000)

iii) Liquidity risk

The Company have an overdraft facility and is also funded by interest bearing loans from other Group companies The Group maintains flexibility by keeping committed credit lines available Management monitors rolling forecasts of the Group's unused banking facility and at 30 April 2011 it was £410 1 million (2010 £2 1 million) Through the use of management accounts, the Group constantly monitors its level of costs and borrowings

The financial statements of East London Bus Group Holdings Limited disclose the repayment of the Group's financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date and give further detail about the Group's financial instruments

1.19 Capital risk management

The capital risk management for the Company is undertaken centrally by the executive directors of the Group's holding company when they consider the Group's objectives, these being, safeguarding the Group's ability to continue as a going concern and provide the required returns for shareholders and benefits for other stakeholders In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt

During 2011, the Group's main objective in this area, which was unchanged from 2010, was to ensure the banking covenants were satisfied and the Group's shareholders received acceptable returns

1 Principal accounting policies (continued)

1.20 Critical accounting judgements and key sources of estimation uncertainty
In the process of applying the Company's accounting policies that are described above, management has made judgements and estimates The area involving a higher degree of judgement or complexity and where assumptions and the estimate is significant to the financial statements is

Self insurance
Provision is made for all known incidents for which there is self insurance using management's best estimate of the likely settlement of these incidents The estimated settlement is reviewed on a regular basis with independent actuarial advice and the amount provided is adjusted as required

The Company's total insurance provision at the balance sheet date was £Nil (2010 £4,298,000)

Exceptional items
Costs incurred outside the normal operations of the business have been classified as exceptional

During the prior period, the Company began an operational restructuring process to assist in its refinancing arrangements and the eventual sale of the Company in October 2010 These one off costs incurred outside the normal operations of the business have been classified as exceptional

1.21 New accounting standards adopted during the period

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial period beginning 1 May 2010, but do not have any significant effect on the financial statements of the Company

Amendments resulting from April 2009 Annual Improvements to IFRS

IFRS 1 (revised), 'First time adoption of IFRSs – revised and restructured'

IFRS 1 (amended), 'First time adoption of IFRSs - amendments relating to oil and gas assets and determining whether an arrangement contains a lease'

IFRS 2 (amended), 'Shared-based payment – amendments relating to group cash-settled share-based payment transactions'

IAS 27 (amended), 'Consolidated and separate financial statements – consequential amendments arising from amendments to IFRS 3'

IAS 28 (amended), 'Investments in associates – consequential amendments arising from amendments to IFRS 3'

IAS 31 (amended), 'Investments in joint ventures – consequential amendments arising from amendments to IFRS 3'

IAS 32 (amended), 'Financial instruments presentation – amendments relating to classification of right issues'

IAS 39 (amended), 'Financial instruments recognition and measurement – amendments for eligible hedged items'

IAS 39 (amended), 'Financial instruments recognition and measurement – amendments for embedded derivatives when classifying financial instruments'

IFRIC 17, 'Distribution of non-cash assets to owners'

IFRIC 18, 'Transfers of assets from customers'

1 Principal accounting policies (continued)

1.22 New accounting standards and interpretations not applied

The International Accounting Standards Board ("IASB") and IFRIC have issued the following standards and interpretations with an effective date for financial periods beginning on or after the dates disclosed below and therefore after the date of these financial statements

Amendments resulting from May 2010 Annual Improvements to IFRSs	1 January 2011 and later
IFRS 1 First – time adoption of International Financial Reporting Standards (revised January 2010)	1 July 2010
IFRS 1 First – time adoption of International Financial Reporting Standards (revised May 2010)	1 January 2011
IFRS 1 First – time adoption of International Financial Reporting Standards (revised December 2010)	1 July 2010
IFRS 7 Financial Instruments disclosures – amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 9 Financial Instruments – classification and measurement (revised November 2010)	1 January 2013
IFRS 10 Consolidated financial instruments	1 January 2013
IFRS 11 Joint arrangements	1 January 2013
IFRS 12 Disclosures of interests in other entities	1 January 2013
IFRS 13 Fair value measurement	1 January 2013
IAS 1 Presentation of financial statements (revised June 2011)	1 July 2012
IAS 12 Income taxes – Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19 Employee benefits (revised June 2011)	1 January 2013
IAS 24 Related party disclosures (revised November 2009)	1 January 2011
IAS 27 Consolidated and separate financial statements (amended in 2011)	1 January 2013
IAS 28 Investments in associates and joint ventures (amended in 2011)	1 January 2013
IAS 32 Financial instruments presentation – amendment re classification of rights issue	1 February 2011
IFRIC14 Amendment re prepayments of a minimum funding requirement	1 July 2010
IFRIC19 Extinguishing financial liabilities with equity instruments	1 July 2010

The Directors are currently reviewing the requirements of the above standards and interpretations to determine whether they will have a material impact on the Company's financial statements in the period of initial application

2 Segment information

Management has determined that there is only one reportable operating segment based on the reports reviewed by the strategic steering committee when making strategic decisions

The committee considers the business from both a business and product perspective and considers the performance of operating buses in London and the South East as being the only segment

3 Revenue and other operating income

	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
Sale of services	**84,571**	78,856
Other operating income	**653**	1,052
Total income	**85,224**	79,908

All the above income is generated in the United Kingdom

Due to the nature of the Company's business, the origin and destination of revenue is the same in all cases The Company provides services primarily to Transport for London and the directors consider that this represents one business segment

4 Operating (loss)/profit before exceptional items

Operating (loss)/profit is stated after charging/(crediting)

	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
Staff costs (Note 6)	**53,544**	55,062
Depreciation		
- owned	**4,149**	4,152
Auditors' remuneration - audit services	**(20)**	20
Operating lease rentals		
- land and buildings	**1,356**	1,266
- other	**167**	585

No auditors' fees have been settled directly by the Company (2010 £20,000) Audit fees of £7,800 were paid by a fellow subsidiary undertaking on behalf of the Company in respect of audit work performed in the UK

5 Exceptional items

	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
Restructuring costs	**4,213**	330

Restructuring costs
These are additional costs outside its normal business activities that the Company incurred in its attempt to restructure the business, renegotiate its financing arrangements and the eventual sale of the Company in October 2010

The tax effect of exceptional items in the period ended 30 April 2011 is £867,481

6 Directors and employees

	30 April 2011 £000	2 April 2010 £000
Emoluments of directors	**39**	Nil

The above details of directors' emoluments include the emoluments of L B Warneford, C Brown, R G Andrew, R Montgomery, S Greer, and A M Threapleton which are paid by fellow group undertaking, Stagecoach Holdings Limited £38,906 (2010 £Nil) of their total emoluments received is apportioned to their services as directors of South East London & Kent Bus Company Limited

No part of the remuneration of M J Vaux is directly attributable to the Company

In the prior period, the directors received no remuneration from the Company The remuneration for their services to the group were disclosed in the financial statements of fellow group company, East London Bus and Coach Company Limited and the former holding company, East London Bus Group Holdings Limited

6 Directors and employees (continued)

The average monthly number of persons employed by the Company (including directors) during the period was

	393 days ended 30 April 2011 Number	369 days ended 2 April 2010 Number
By activity		
Operations	**1,264**	1,374
Administration & supervisory	**114**	78
	1,378	1,452

	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
The aggregate remuneration comprised		
Wages and salaries	**47,180**	48,387
Social security costs	**4,683**	4,797
Pension costs	**1,681**	1,878
	53,544	55,062

7 Finance costs and income

	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
Finance costs		
Inter company loan interest payable	**(919)**	(935)
Notional interest charge on provisions	**Nil**	(33)
	(919)	(968)
Finance income		
Inter company loan interest receivable	**435**	286
Bank interest receivable	**21**	Nil
	456	286
Net finance costs	**(463)**	(682)

8 Taxation

a) The major components of the taxation credit for the period are.

	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
Current tax:		
UK corporation tax on profits for the period	616	Nil
Total current tax	616	Nil
Deferred tax:		
Origination and reversal of timing differences	(980)	(1,210)
Adjustments in respect of prior periods	(157)	26
Total deferred tax (note 15)	(1,137)	(1,184)
Taxation credit	(521)	(1,184)

The tax credit for the period is higher than (2010 less than) the standard rate of corporation tax in the UK of 27 85% (2010 28%) The differences are explained on the next page

b) Factors affecting the tax credit for the period

	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
The effective tax rate for the period is reconciled to the actual tax charge as follows		
(Loss)/profit on ordinary activities before tax	(574)	3,267
(Loss)/profit on ordinary activities multiplied by standard rate of income tax in the UK of 27 85% (2010 28%)	(160)	915
Effect of		
Treatment of inter company transactions	2	Nil
Group relief claimed for nil payment	(252)	(2,125)
Impact of reduction in UK tax rate on current period's deferred tax	68	Nil
Impact of reduction in UK tax rate on prior period's deferred tax	(22)	Nil
Adjustments to deferred tax charge in respect of prior periods	(157)	26
Taxation credit	(521)	(1,184)

Notes to the financial statements (continued)
For the period ended 30 April 2011

8 Taxation (continued)

c) Factors affecting the tax credit for the period

In the 2011 budget on 23 March 2011, the UK Government announced its intention to reduce the UK Corporate tax rate to 23% by 1% per annum over a three-year period At 30 April 2011, no change in the rate was substantively in law, but a 1% decrease in the rate to 25% is expected to be enacted in the year ending 30 April 2012 Had this change of rate to 25% been substantively enacted as of the balance sheet date, the estimated impact on the balance sheet would be a reduction in the deferred tax asset of £25,492 from £662,807 to £637,315

9 Property, plant and equipment

	Leasehold land and buildings £'000	Passenger service vehicles £'000	Other plant and equipment £'000	Total £'000
Cost				
At 29 March 2009	727	49,092	2,514	52,333
Additions	156	6,158	97	6,411
Disposals	Nil	(3,362)	(5)	(3,367)
Transfers	Nil	(2,494)	(29)	(2,523)
At 2 April 2010	883	49,394	2,577	52,854
Additions	6	286	92	384
Disposals	Nil	(554)	(11)	(565)
Transfers	Nil	(2,517)	110	(2,407)
Re-classification	Nil	49	(49)	Nil
At 30 April 2011	**889**	**46,658**	**2,719**	**50,266**
Accumulated depreciation				
At 29 March 2009	(159)	(22,169)	(2,045)	(24,373)
Charge for the period	(80)	(3,961)	(111)	(4,152)
Disposals	Nil	2,761	5	2,766
Transfers	Nil	1,384	29	1,413
At 2 April 2010	(239)	(21,985)	(2,122)	(24,346)
Charge for the period	(95)	(3,938)	(116)	(4,149)
Disposals	Nil	431	11	442
Transfers	Nil	1,745	(75)	1,670
Re-classification	Nil	22	(22)	Nil
At 30 April 2011	**(334)**	**(23,725)**	**(2,324)**	**(26,383)**
Net book value at 30 April 2011	**555**	**22,933**	**395**	**23,883**
Net book value at 2 April 2010	644	27,409	455	28,508

The net book value of assets held under finance leases and hire purchase agreements included above is £Nil (2010 £Nil)

10 Inventories

	30 April 2011 £'000	2 April 2010 £'000
Finished goods	**257**	245

The cost of inventories recognised as an expense and included in operating expenses amounted to £19,197,000 (369 days ended 2 April 2010 £9,242,000) Six month non moving inventories are considered to be impaired

Movement on provision for impairment of inventories

	30 April 2011 £'000	2 April 2010 £'000
Provision at beginning of the period	**Nil**	Nil
New provisions in the period	**7**	Nil
Amount written off to provision	**Nil**	Nil
Provision at end of the period	**7**	Nil

11 Trade and other receivables

	30 April 2011 £'000	2 April 2010 £'000
Current		
Trade receivables	**Nil**	1
Amounts due from group undertakings	**20,015**	5,521
Other debtors	**Nil**	48
Prepayments and accrued income	**2,036**	2,410
	22,051	7,980

In the prior period, trade receivables are non interest bearing and are generally on 30 or 60 day terms Since 13 December 2010, responsibility for the collection of trade receivables lies with Stagecoach Services Limited, a fellow group undertaking Hence trade receivables outstanding at the period end represented Nil days' sales (2010 Nil days)

The amounts due from group companies are unsecured, repayable on demand and interest bearing Interest is payable at six monthly intervals on 30 April and 31 October and is charged at 8 4% (2010 8 4%) Since 15 October 2010, of the above amounts due from fellow group undertakings, £20,013,405 (2010 £Nil) incur interest at a rate of 5% above the UK base rate All other amounts accrue no interest and are repayable on demand

11 Trade and other receivables (continued)

There is no significant difference between the net book amount and the fair value of current trade and other receivables due to the short term nature

The carrying amounts of the Company's trade and other receivables are all denominated in £ sterling

Credit quality of trade receivables

The table below analyses the total trade receivables balance into fully performing, past due and impaired

	30 April 2011 £'000	2 April 2010 £'000
Fully performing	Nil	1
Less than 90 days past due	Nil	Nil
Over 90 days past due	Nil	Nil
Impaired	Nil	Nil
	Nil	1

Trade receivables are considered impaired if they are not considered recoverable

Movement on provision for impairment of trade receivables

	30 April 2011 £'000	2 April 2010 £'000
Provision at beginning of the period	Nil	1
New provisions in the period	Nil	Nil
Amount written off to provision	Nil	(1)
Provision at end of the period	Nil	Nil

12 Cash and cash equivalents

	30 April 2011 £'000	2 April 2010 £'000
Cash at bank and on hand	100	82

13 Trade and other payables

	30 April 2011 £'000	2 April 2010 £'000
Current		
Trade payables	**Nil**	270
Current tax liabilities	**616**	Nil
PAYE and NIC payable	**1,517**	1,733
Other payables	**Nil**	829
Amounts owed to group undertakings	**21,207**	12,006
Accruals	**9,364**	3,512
	32,704	18,350

Until 15 October 2010, the amounts due to group companies are unsecured, repayable on demand and interest bearing Interest is payable at six monthly intervals on 30 April and 31 October and is charged at the Group's weighted average cost of capital of 8 4% (2010 8 4%)

From 15 October 2010, of the above amounts owed to fellow group undertakings, £11,122,594 (2010 £Nil) incur interest at a rate of 5% above the six month London Inter Bank Outer rate (LIBOR) All other amounts accrue no interest and are repayable on demand

There is no significant difference between the net book amount and the fair value of current trade and other payables due to the short term nature

14 Bank borrowings

The carrying value of borrowings was as follow

	30 April 2011 £'000	2 April 2010 £'000
Current		
Bank borrowings	**610**	Nil

Repayment profile

Borrowings are repayable as follows

	30 April 2011 £'000	2 April 2010 £'000
On demand		
Bank overdraft (unsecured)	**610**	Nil

The Company's overdraft is subject to the rights of offset in the Group's bank offset arrangement as discussed in the Group's 2011 annual report (note 21 of the Notes to the consolidated financial statements), which does not form of this report

15 Deferred tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority The offset amounts are as follows

	30 April 2011 £'000	2 April 2010 £'000
Deferred tax liabilities to be recovered after more than 12 months	**(9)**	(598)
Deferred tax asset to be recovered after more than 12 months	**672**	124
Net deferred tax asset/(liability)	**663**	(474)

The gross movement on the deferred income tax account is as follows

	393 days ended 30 April 2011 £'000	369 days ended 2 April 2010 £'000
At beginning of period	**(474)**	(1,658)
Charged to income statement	**1,137**	1,184
At end of period	**663**	(474)

Deferred income tax at 30 April 2011 relates to the following

	Balance sheet 2011 £'000	Balance sheet 2010 £'000	Income statement 2011 £'000	Income statement 2010 £'000
Deferred income tax liabilities·				
Accelerated capital allowances	**(9)**	(598)	**(1,137)**	(1,217)
Total deferred tax liabilities	**(9)**	(598)		
Deferred income tax assets·				
Other short term temporary differences	**672**	124	**Nil**	33
Total deferred income tax assets	**672**	124		
Net deferred income tax assets/(liabilities)	**663**	(474)		
Deferred income tax credit (note 8)			**(1,137)**	(1,184)

16 Retirement benefit obligations

The employees are members of the East London Bus & Selkent pension scheme that is a defined benefit scheme under common control of the group entities The cost of the Company contributions to the Group scheme amounted to £1,678,000 (369 days ended 2 April 2010 £1,878,000) being 7 30% (2010 7 45%) of pensionable salary Additionally, contributions of £3,000 (2010 £Nil) were made to a defined contribution scheme by the Company

During the prior period, under IAS 19 the East London & Selkent pension scheme was accounted for as a defined benefit plan in the accounts of the Group's ultimate UK parent company, East London Bus Group Holdings Limited, and defined contribution accounting was used for this and other Group companies Following its acquisition by Stagecoach Bus Holdings Limited on 15 October 2010, the East London & Selkent pension scheme was accounted for as a defined benefit plan in the accounts of fellow group undertaking East London Bus & Coach Company Limited Defined contribution accounting is used for this and other group companies belonging to the scheme

17 Provisions

	Insurance provision £'000	Tyre provision £'000	Total £'000
Beginning of period	4,298	276	4,574
Income statement charge	1,165	Nil	1,165
Transferred to fellow group undertaking	(5,463)	Nil	(5,463)
End of period	**Nil**	**276**	**276**

All amounts have been disclosed as non current in the balance sheet

The Company has a fleet of around 409 (2010 450) buses and employs around 1,378 (2010 1,400) staff and is included within a Group a self insurance scheme to cover motor and liability claims Responsibility for settlement of claims within the large excesses of the insurance policies purchased by the Group now rests with PSV Claims Limited, a fellow group company Accordingly, the balance of the insurance provision was transferred to PSV Claims Limited during the period

An actuarial review of the scheme was carried out at the period end and the directors have used these results in determining the closing provision and the apportionment of provision between the bus operating companies within the group The provision is in respect of long term claims and has been discounted using the government bond yield adjusted for a risk margin of 1% on motor claims and 2% on liability claims Claims are typically settled within 5 years of origination

17 Provisions (continued)

Tyre Provision

The group hires the tyres on its fleet of buses and consequently would have to purchase tyres if a bus was to be sold The provision is an estimate of the cost of buying tyres to fit on the fleet of buses

18 Shares capital and premium

	Ordinary shares £'000	Share Premium £'000
Allotted, called up and fully paid		
Ordinary shares of £1 each		
At beginning and end of period		
- 3,931,000 ordinary shares of £1 each	**3,931**	**4,570**

19 Guarantees and other financial commitments

a) Lease commitments

The Company had commitments under non-cancellable operating leases Future minimum rentals payable under these leases are as follows

At 30 April 2011

	Land & buildings £'000	Plant & equipment £'000	Total £'000
Within one year	1,271	226	**1,497**
Between two and five years	3,604	194	**3,798**
	4,875	420	**5,295**

At 2 April 2010

	Land & buildings £'000	Plant & equipment £'000	Total £'000
Within one year	1,252	226	1,478
Between two and five years	4,904	433	5,337
	6,156	659	6,815

19 Guarantees and other financial commitments (continued)

b) Contingent liabilities

The Company, together with certain other Group undertakings, is a member of a group for VAT purposes, and technically stands liable in the event of default by any other Group undertaking

c) Cross guarantees

The Company is subject to a cross corporate guarantee in relation to the Stagecoach Group plc banking arrangements with the Bank of Scotland There have been no instances where this guarantee has been called upon during the period and none are expected in the future

20 Related party transactions

During the period the following related party transactions took place

The Company was charged £1,356,000 (369 days ended 2 April 2010 £1,266,000) rent by East London Bus Group Property Investments Limited

Net interest of £484,000 (369 days ended 2 April 2010 £649,000) was charged on the loans from group companies during the period, £472,000 (369 days ended 2 April 2010 £771,000) was charged by East London Bus Group Limited, £86,000 (369 days ended 2 April 2010 £164,000) was charged by East London Bus Group Property Investments Limited, £361,000 was charged on loans from SCUSI Limited (2010 £Nil) and £435,000 (369 days ended 2 April 2010 £286,000) was receivable from East London Bus & Coach Company Limited

£Nil (369 days ended 2 April 2010 £460,000) of the Macquarie management fee has been recharged by the former holding company, East London Bus Group Holdings Limited during the period

Operating lease rentals for PSVs of £525,000 (369 days ended 2 April 2010 £549,000) were recharged by East London Bus & Coach Company and East London Bus Group Limited

The only key management of the Company are considered to be the Directors In the prior period, as stated in note 6, their remuneration is borne by another group company, East London Bus and Coach Company

21 Ultimate parent undertaking

The Company's immediate holding company is Stagecoach Bus Holdings Limited (registered number SC176671) and its ultimate holding company and controlling party is Stagecoach Group plc (registered number SC100764) both registered in Scotland Stagecoach Group plc heads the only group in which the results of the Company are consolidated The financial statements of both Stagecoach Group plc and Stagecoach Bus Holdings Limited are available from the Company Secretary at the following address

Stagecoach Group plc
Group Headquarters
10 Dunkeld Road
Perth
PH1 5TW