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## Highlights

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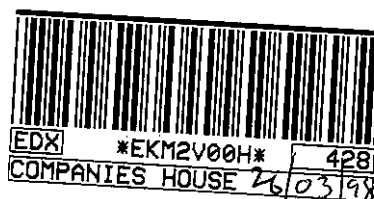
Profits before tax of £4.265 million, an increase of 42% ●

Earnings per share of 17.94p, a rise of 98% on adjusted earnings per share for 1995/96 ●

Proposed dividend of 1.8p ●

Operating cash flow of £6.6 million ●

Capital investment of £7.8 million ●



## Chairman's statement

I am delighted to report a year of significant progress for Metroline. In the year to 10 October 1997 the company achieved a profit on ordinary activities before tax of £4.265 million and a profit after tax of £3.677 million. These results comfortably exceeded the profit forecasts of not less than £4.0 million and £3.45 million respectively set out in our prospectus at the time of our flotation. At the time of the flotation the directors forecast earnings per share of 16.7p and I am pleased to announce that earnings per share for the year were 17.94p, an increase of 98% over the adjusted figure for the previous year.

The improved trading results for the year were achieved on slightly lower turnover of £36.44 million (1996: £37.10 million), demonstrating the success of our stringent control of overhead costs and improved operational efficiencies in the core business. Cash flow remains a key strength of the business with £6.6 million being generated from operating activities in the year. Investment of £7.8 million in new vehicles enhanced the quality of the fleet.

## Dividend

In accordance with the directors' forecast at the time of the flotation, a final net dividend of 1.8p per share is being recommended. The dividend payment will be made on 6 March 1998 to shareholders on the register on 6 February 1998.

## Board Changes

I was very pleased to join the Board, as Chairman, in June 1997. Alan Coppin also joined the Board in June. Alan is Chief Executive of Wembley plc and his commercial and operational experience is proving to be of great assistance. We believe we have a strong Board well able to take the company forward successfully in pursuit of its strategic objectives.

## Employees

My confidence in the company's prospects owes much to the input of the employees and managers of the business, the majority of whom are Metroline shareholders. The company's continued success

## Chairman's statement (continued)

reflects our determination to ensure that it is recognised as one of London's best bus operators and I wish to express my gratitude for our staff's considerable contribution to our success.

### Flotation

Metroline's flotation on the London Stock Exchange on 29 July 1997 was well received and involved a successful £12 million placing which raised £2.05 million net of expenses for the company. We are very pleased to welcome our new shareholders and thank them for their support. We are particularly gratified to record the significant vote of confidence by our own employees who themselves invested just under £1 million in the placing.

### Prospects

Metroline's principal market is London, whose bus services are already regulated. We do not therefore anticipate any significant effects to our core business from any changes to regulation in the industry which could arise from the proposed White Paper on transport integration. Of more particular interest are the government's proposals for a new Greater London Authority and elected mayor, and the creation of a London Transport Authority to assume the current responsibilities of London Regional Transport. As yet it is too soon to predict the effect of any changes in policy but the company has broadly welcomed the new government's support for public transport in general, and buses in particular.

Initial trading for the current financial year has been in line with our expectations and recent contract wins will come on stream during the year.

It remains the company's strategy to increase its share of the London bus market and to seek acquisition opportunities in line with our longer term aim to develop into a broader based transport group.



**Bert Morris - Chairman**

# Operations review \_\_\_\_\_

## The Business

The company's principal business in the year remained its bus operations under contract to London Transport with 89% of turnover coming from this source.

Bus services in London are regulated by London Transport who operate a rolling 5 year tendering programme. This means that broadly 20% of all services are tendered each year. As a larger London bus operator, our ability to tender successfully to both retain existing work as it falls due and to win new business remains a key activity for Metroline. Route contracts contain specifications of the service required, vehicle and service quality, mileage operated, fares arrangements, health and safety standards and reporting requirements.

Typically it can take eight months from the submission of a tender to its contract start date which means that the impact on trading results will often cross from one financial year to the next.

During the year all of the company's routes which were tendered were retained and new contracts with a combined annual turnover value of £3.5 million were won.

## The Market

Bus passenger journeys in London grew by about 4% last year continuing the trend of recent years. This growth reflects a stronger economy, increased employment, consumer spending and tourism.

Current forecasts indicate annual growth of about 4.5% for bus revenue including particularly strong growth in some bus only products such as bus passes.

Traffic congestion remains a significant impediment to improving services to customers, and we welcome current initiatives to give buses a priority network in London.

# Corporate governance

## The Board of Directors

The Board, which comprises four executive and three non-executive directors, meets regularly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls.

## Board Committees

The Board has delegated specific authority to the Remuneration Committee and the Audit Committee. All three non-executive directors are currently members of the Remuneration Committee and the Audit Committee. Both committees are chaired by Bert Morris, the Chairman.

The Remuneration Committee is responsible for determining the Executive Directors' remuneration and benefits. The committee also approves grants of options under the Executive Share Option Scheme.

The Report of the Remuneration Committee for the year ended 10 October 1997 is on page 12.

The Audit Committee meets at least twice a year, and considers the appointment and fees of the external auditors and discusses the scope of the audit and its findings. The committee is also responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board.

## Internal Controls

The Directors acknowledge their responsibility for the group's system of internal financial control and place importance on maintaining a strong control environment.

There is a clearly defined organisational structure ensuring an appropriate division of responsibility and the group prepares a comprehensive annual budget that is approved by the Board. Monthly results are reported against the budget and variances are closely monitored. Detailed control procedures are in place throughout the group and compliance is monitored by the finance department and the Directors.

The Directors recognise, however, that the system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss.

## Corporate governance (continued)

### Statement of Compliance

The Directors have reviewed the compliance of the group with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance and with the recommendations of the Greenbury Study Group on Directors' Remuneration published in July 1995.

The Board considers that the group complies with the Code of Best Practice and the recommendations of the Greenbury Study Group, in so far as is appropriate for a group of Metroline's size.

## Operations review (continued)

### Performance

Profit on ordinary activities before taxation was £4.265 million which was an increase of 42% on the previous year. The operating profit return of 14.7% is at the higher end of the industry's league table of profitability and is after the additional overhead associated with the company's flotation.

Turnover reduced by £0.65 million reflecting lower activity in other bus and coach services but the profit impact was outweighed by the strength of the core business.

The significant investment in new vehicles enabled the disposal of some mid-life models at a profit whilst also helping to reduce maintenance costs. Strong cash flows and new finance raised on flotation helped to reduce interest charges.

### Investment in Vehicle Fleet

The company continues to invest heavily in new vehicle purchases and every opportunity is used to offer better quality products for passengers at the time routes come up for tender. During the year £7.8 million was spent on 84 new vehicles.

Since the company was privatised in 1994, a total of £11.3 million has been invested in 132 new vehicles, approximately 27% of the current fleet. Excluding the traditional Routemaster vehicles, the average vehicle age was 8.3 years at the financial year end.

The investment in new vehicles helped reduce the effective corporation tax rate to 13.8%.

### Environment

All new vehicle purchases are bringing with them the benefits of improved accessibility, wide entrances and exits and low floors being of particular help to shoppers, less mobile passengers and those with pushchairs. The buses have modern seating, heating

## Operations review (continued)

and lighting systems and the latest generation engines are quieter, smoother and meet the latest standards on exhaust emissions. The company introduced ultra-low sulphur diesel into one of its garages in November 1996, and has recently decided to extend its use to all its bus services from January 1998. Smoke testing of exhaust emissions is now a regular part of the company's audit procedures, with 99.7% of vehicles passing the standard test first time.

The company is also involved in extensive trials of particulate traps which have shown encouraging reductions in exhaust emissions, and is now considering their fitment as standard to all new vehicles.

## Integrated Transport Policy

Increasing traffic congestion hinders the reliability of bus services and we hope the government's proposals for integrated transport policies will lead to better land use, infrastructure development and allocation of road space for public transport, especially buses. London's bus network is already heavily regulated and we believe the answers to congestion lie in policies which effectively regulate the use of the private car through a series of measures which both promote public transport and deter private car use.

## Quality for the Future

As well as new vehicles, continued investment in our staff, management and systems are essential to achieve our ambitions of delivering the highest quality of operation for our passengers. Our confidence to achieve improved results is founded in our plans to improve ourselves, and to that end the company continues with its extensive training programmes in vocational qualifications and working towards Investors in People and ISO 9002 accreditation.



**Declan O'Farrell - Chief Executive**



## Report by the Auditors to Metroline plc on Corporate governance matters

In addition to our audit of the accounts we have reviewed the directors' statements on pages 7, 8 and 25 on the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board and assessed whether the directors' statements on going concern and internal financial control are consistent with information of which we are aware from our audit. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the group's system of internal financial control or the company's corporate governance procedures nor on the ability of the group to continue in operational existence.

### Opinion

With respect to the directors' statements on internal financial control on page 7 and on going concern on page 25, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are consistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 8 appropriately reflects the company's compliance with the other paragraphs of the code specified for our review by Listing Rule 12.43(j).

Ernst & Young  
Chartered Accountants  
London

# The Board of Directors

***Bert Morris, chairman, non-executive, aged 62 years.***

Bert Morris joined Metroline as Chairman in June 1997. Until October 1994, he was on the Board of National Westminster Bank plc, having joined Westminster Bank in 1956. He has been Chairman of BACS (Bankers Automated Clearing Services) and APACS (Association for Payment Clearing Services) and a member of the European Banking Federation. He was a founding member of the UK Banking Ombudsman Scheme. Bert Morris is a fellow of the Chartered Institute of Bankers and of the Royal Society of Arts. He is a non-executive director of Lorien plc and Regent Associates Limited. Bert Morris served as a non-executive on the Board of the Department of Social Security from January 1993 to March 1997 and chaired the Department's Audit Committee from 1995 to 1997.

***Declan O'Farrell FCCA, chief executive, aged 48 years.***

Declan O'Farrell, a Certified Accountant, joined London Buses Limited in 1986. He was appointed Managing Director of Metroline Travel in 1988. He is a Deputy Chairman of the North West London Training and Enterprise Council and Chairman of Business Link London. He was previously a financial controller within Express Foods Group, then part of Grand Metropolitan plc.

***John Golledge FCMA, finance director, aged 43 years.***

John Golledge, a fellow of the Chartered Institute of Management Accountants, joined Metroline Travel as Finance Director shortly after it began trading in 1989. He previously held various financial positions including chief accountant of Donnay (UK) Limited and as management accountant for the worldwide operations of the "International Holiday on Ice Group".

***Gordon Tennant BSc, MCIT, operations director, aged 38 years.***

Gordon Tennant, a member of the Chartered Institute of Transport, joined London Transport as a graduate trainee in 1979. He was appointed General Manager of Harrow Buses, one of the first self-sufficient commercial operations within London Buses in 1987 and joined the Board of Metroline Travel in 1989 as Commercial Director before taking on the role of Operations Director. He is a non-executive director of University Bus Limited, a bus company owned by the University of Hertfordshire.

## The Board of Directors (continued)

***Mike Smith AMIRTE, engineering director, aged 56 years.***

Mike Smith started his working career with London Transport in 1957, and joined the Board of Metroline Travel in 1989. He is an associate member of the Institute of Road Transport Engineers and has considerable experience of engineering, technical, safety and man management issues. He led the project team which introduced the four weekly maintenance system into London Buses Limited, and he has held engineering management positions both at garage and head office levels.

***Alan Coppin, non-executive director, aged 47 years.***

Alan Coppin, who is chief executive of Wembley plc, joined Metroline as a non-executive director in June 1997. Prior to joining Wembley plc, Alan Coppin was a management consultant in KPMG's specialist Leisure and Tourism Group. He has also held senior management positions in Associated Leisure Limited and Trusthouse Forte Leisure. Alan Coppin is a companion of the Institute of Management and a director of the children's charity Cities in Schools, UK.

***Chris Harper ACA, non-executive director, aged 34 years.***

Chris Harper, who qualified as an accountant with Arthur Andersen & Co, and is currently a director of Granville Private Equity Managers Limited, joined Metroline as a non-executive director in 1994. Prior to joining the Granville Group in 1991, Chris Harper was a Vice-President of Security Pacific Eurofinance PLC. He is currently also a non-executive director of Merlin Distribution (Holdings) Limited and Valetmatic Holdings Limited.

# Report of the Remuneration Committee

for the year ended 10 October 1997

## Members

The membership of the remuneration committee during the year was comprised of non-executive directors only, in accordance with the recommendations of the Greenbury Study Group.

The members are:

Bert Morris, Chairman

Alan Coppin

Chris Harper

## Policy Statement

The Remuneration Committee seeks to provide the remuneration packages necessary to attract, retain and motivate Executive Directors of the quality required to manage the business of the group and seeks to avoid paying more than is necessary for this purpose. In establishing the level of remuneration for each Director the Committee has regard to packages offered by comparable companies.

Each of the Executive Directors is entitled to participate in a bonus scheme determined by reference to profit performance of the group. Each Executive Director has a significant shareholding in the group and it is the Committee's intention to continue to seek to align the interests of the Executive Directors with those of the shareholders.

The Remuneration Committee acknowledges the recommendations of the Greenbury Committee which reported on 17 July 1995 and intends to ensure that, in all material respects, it complies with the recommendations made.

Details of directors' emoluments are set out in note 5 to the Accounts

# Directors' report

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for the year ended 10 October 1997

The Directors' present their report and group accounts for the year ended 10th October 1997.

## Principal Activity and Business Review

The group's principal activity continues to be the provision of road passenger transport services within the Greater London area. A review of the group's activities during the year is given in the Chairman's

Statement and the Operating Review.

## Financial Results

The profit for the year was £4,265,000 (1996 - £3,009,000) before taxation.

The Directors recommend payment of a final dividend of 1.8p per share.

During the year, in accordance with the Articles of Association, dividends totalling 7.956p per share were paid on preference shares prior to their redemption as part of the capital reorganisation.

After provision for dividends and other appropriations, the retained profit for the financial year was £3,102,000 (1996 - £1,723,000) and this has been transferred to reserves. Movements on reserves are shown in note 23 to the accounts.

## Capital Reorganisation

On 29th July 1997, a reorganisation of the company's share capital was effected whereby bonus shares were issued to the holders of the existing four classes of ordinary shares which were then converted into 19,756,200 5p ordinary shares.

On the same date, 1,734,104 new 5p ordinary shares were issued to raise new capital by way of a placing on The London Stock Exchange, the proceeds from which were used to redeem the preference shares then in issue and reduce the company's debt.

Full details of these transactions can be found in note 21.

## Directors' report (continued)

for the year ended 10 October 1997

### Directors and their Interests

The Directors who held office during the year and their interests in the share capital of the company were

	Number and Class of Shares	
	At 10 October 1997	At 11 October 1996
A. Morris (Appointed 12 June 1997)	-	-
D.G. O'Farrell	2,646,080 ordinary	110,400 "C" ordinary 2,000 deferred
J. Golledge	1,298,040 ordinary	55,200 "C" ordinary 1,000 deferred
M.J. Smith	1,223,040 ordinary	55,200 "C" ordinary 1,000 deferred
G. Tennant	1,273,040 ordinary	55,200 "C" ordinary 1,000 deferred
A. Coppin (Appointed 12 June 1997)	-	-
C.J. Harper	-	-
P.Simpson (resigned 5 March 1997)	-	-

In accordance with the Articles of Association, D. O'Farrell and M. Smith retire by rotation and, being eligible, offer themselves for re-election. Both D. O'Farrell and M. Smith have service contracts which expire on 12 months notice.

Apart from service contracts and related matters, at no time during the year has any Director been interested in any contract of significance in relation to the group's business.

### Substantial Interests

The Directors are aware of the following persons (other than Directors) who were interested, directly or indirectly, in 3 per cent or more of the issued share capital of the company as at 9th December 1997.

Shareholder	Number of Ordinary Shares	Percentage of issued Ordinary Share Capital
The Third Granville Modern Management Trust	788,035	3.7
Granville Private Equity Limited Partnership	1,751,189	8.1
Metroline Profit Sharing Trustee Limited	3,545,406	16.4

## Directors' report (continued)

for the year ended 10 October 1997

### Charitable and Political Donations

No political donations were made during the year.

Total charitable donations of £600 (1996 £nil) were made during the year.

### Health and Safety

The health, safety and welfare of its employees and passengers is of the utmost importance to the group. Audits of safety performance were frequently undertaken during the year. Full support was given to joint consultation and employee participation on safety matters.

### Disabled Employees

The group policy in respect of disabled persons is that their applications for employment are always fully and fairly considered, bearing in mind the abilities of the applicant concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that employment with the group continues and where necessary appropriate training is arranged. It is the group policy that training, career development and promotion of disabled persons should, as far as possible, be identical with that of all other employees in similar gradings.

### Employee Consultation

The directors and managers of the group place considerable value on the consultative meetings with employees. Information on matters affecting employees and on various factors affecting the performance of the company is disseminated through meetings, newsletters and training programmes. Employees' representatives are consulted regularly on a wide range of matters affecting employees' current and future interests.

## Directors' report (continued)

for the year ended 10 October 1997

### Supplier Payment Policy and Practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At the year end, the company had an average of 39 days purchases outstanding in trade creditors.

### Auditors

A resolution proposing the reappointment of Ernst & Young will be submitted at the Annual General Meeting.

### Special Business at the Annual General Meeting

At the annual general meeting of the company to be held on 11 February 1998 the shareholders will be asked to consider special resolutions:

to cancel certain unissued shares in the capital of the company; and

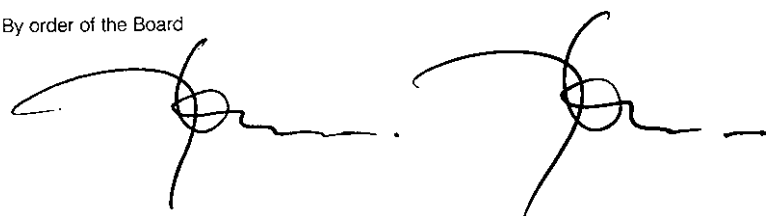
to renew the authority given to the directors at the last annual general meeting held on 26 June 1997

to allot a certain proportion of the company's authorised but unissued share capital and to disapply statutory pre-emption rights in certain circumstances, namely where the offer of new shares is to existing shareholders in proportion to their existing shareholding and secondly where the issue is for cash on a non-preemptive basis up to a maximum 5% of the company's existing issued share capital.

This authority is in line with the practice of other companies listed on the London Stock Exchange and is in compliance with the rules of the London Stock Exchange and investor guidelines.

The special resolutions are set out in the notice of annual general meeting on pages 41 and 42 of this document.

By order of the Board



**J. Gollidge - Secretary**



## Statement of Directors' responsibilities in respect of the accounts

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make adjustments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors confirm that they have complied with the above requirements in preparing the accounts.

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

# Report of the Auditors to the members of Metroline plc

We have audited the accounts on pages 19 to 40, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 25 and 26.

## Respective responsibilities of directors and auditors

As described on page 17 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

## Basis of opinion

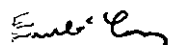
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the group'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 accounts 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 accounts.

## Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company and of the group as at 10 October 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Chartered Accountants  
Registered Auditor  
London

19 December 1997

# Group profit and loss account

for the year ended 10th October 1997

	Notes	1997	1996
		£000	£000
<b>Turnover</b>	2	<b>36,446</b>	<b>37,097</b>
Cost of sales:			
Other cost of sales		25,762	26,093
Exceptional item	12	-	524
		<b>25,762</b>	<b>26,617</b>
<b>Gross Profit</b>		<b>10,684</b>	<b>10,480</b>
Administrative expenses		5,317	5,439
<b>Operating profit</b>	3	<b>5,367</b>	<b>5,041</b>
Profit on disposal of tangible fixed assets		517	8
		<b>5,884</b>	<b>5,049</b>
Interest receivable and similar income	6	157	112
Interest payable and similar charges	7	(1,776)	(2,152)
<b>Profit on ordinary activities before taxation</b>		<b>4,265</b>	<b>3,009</b>
Tax on profit on ordinary activities	8	588	1,001
<b>Profit on ordinary activities after taxation</b>		<b>3,677</b>	<b>2,008</b>
Preference dividends on non-equity shares	10	7	12
Ordinary dividend on equity shares	10	387	-
<b>Other appropriations: non-equity shares</b>	10	<b>181</b>	<b>273</b>
<b>Retained profit for the year</b>	23	<b>3,102</b>	<b>1,723</b>
<b>Earnings per ordinary share</b>			
Undiluted	11	17.94p	9.07p
<b>Dividends per ordinary share</b>			
Final dividend	10	1.8p	

## Group statement of recognised gains and losses

for the year ended 10th October 1997


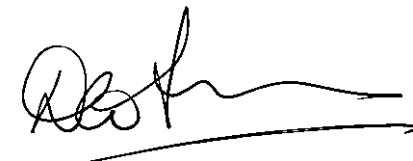
	Notes	1997	1996
		£000	£000
Profit for the year		3,677	2,008
Unrealised surplus on revaluation of freehold land		-	905
Total recognised gains and losses for the year		3,677	2,913

# Group balance sheet

at 10th October 1997

	Notes	1997 £000	1996 £000
<b>Fixed assets</b>			
Tangible assets	12	20,150	15,350
Investments	13	100	100
		<u>20,250</u>	<u>15,450</u>
<b>Current assets</b>			
Stocks	14	478	388
Debtors	15	5,674	4,775
Cash at bank and in hand		3,028	1,809
		<u>9,180</u>	<u>6,972</u>
<b>Creditors: amounts falling due within one year</b>	16	11,617	10,275
<b>Net current liabilities</b>		<u>(2,437)</u>	<u>(3,303)</u>
<b>Total assets less current liabilities</b>		<u>17,813</u>	<u>12,147</u>
<b>Creditors: amounts falling due after more than one year</b>	17	15,224	14,274
		<u>2,589</u>	<u>(2,127)</u>
<b>Capital and Reserves</b>			
Called up share capital	21	1,075	71
Share premium account	23	2,307	298
Capital redemption reserve	23	100	30
Revaluation reserve	23	905	905
Profit and loss account	23	(1,798)	(3,431)
Shareholders' funds:			
Equity		<u>2,589</u>	<u>(2,608)</u>
Non-equity		<u>-</u>	<u>481</u>
		<u>2,589</u>	<u>(2,127)</u>

The accounts were approved by the board of directors on 19 December 1997 and were signed on its behalf by:

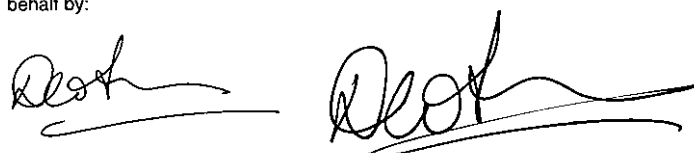
D G O'Farrell  
Director

# Balance sheet

at 10th October 1997

	Notes	1997 £000	1996 £000
<b>Fixed assets</b>			
Investments	13	13,885	14,434
<b>Current assets</b>			
Debtors	15	597	511
Cash at bank and in hand		507	-
		<b>1,104</b>	<b>511</b>
<b>Creditors: amounts falling due within one year</b>	16	<b>6,252</b>	<b>8,982</b>
<b>Net current liabilities</b>		<b>(5,148)</b>	<b>(8,471)</b>
<b>Total assets less current liabilities</b>		<b>8,737</b>	<b>5,963</b>
<b>Creditors: amounts falling due after more than one year</b>	17	<b>-</b>	<b>3,050</b>
		<b>8,737</b>	<b>2,913</b>
<b>Capital and Reserves</b>			
Called up share capital	21	1,075	71
Share premium account	23	2,307	298
Capital redemption reserve	23	100	30
Profit and loss account	23	5,255	2,514
<b>Shareholders' funds:</b>			
Equity		<b>8,737</b>	<b>2,432</b>
Non-equity		<b>-</b>	<b>481</b>
	23	<b>8,737</b>	<b>2,913</b>

The accounts were approved by the board of directors on 19 December 1997 and were signed on its behalf by:



D G O'Farrell  
Director

## Group statement of cash flows

for the year ended 10th October 1997

	Notes	1997	1996
		£000	£000
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit		5,367	5,041
Depreciation charge		2,097	2,644
Increase in stocks		(90)	(51)
Increase in debtors		(801)	(1,019)
(Decrease)/increase in creditors		(15)	1,045
<b>Net cash inflow from operating activities</b>		<b>6,558</b>	<b>7,660</b>

## Cash flow statement

	Notes		
		1997	1996
<b>Net cash inflow from operating activities</b>	above	<b>6,558</b>	<b>7,660</b>
<b>Returns on investments and servicing of finance</b>			
Interest paid		(2,078)	(1,952)
Interest received		157	112
Dividends paid - preference shares		(7)	(12)
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(1,928)</b>	<b>(1,852)</b>
<b>Taxation</b>			
Corporation tax paid		(732)	(106)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(361)	(97)
Proceeds from sale of tangible fixed assets		1,411	276
<b>Net cash inflow from capital expenditure and financial investment</b>		<b>1,050</b>	<b>179</b>
<b>Financing</b>			
Issue of ordinary share capital			
- on flotation	21	3,000	-
- exercise of options	21	15	-
Cost of share issue and flotation		(919)	-
Payments to redeem preference shares			
- nominal amount	21	(70)	(30)
- premium	21	(593)	(146)
Repayment of bank loan	(a)	(750)	(4,250)
Repayment of loan notes 2000/2002	(a)	(2,380)	(1,020)
Capital element of finance lease rental payments	(a)	(2,531)	(1,349)
<b>Net cash outflow from financing</b>		<b>(4,228)</b>	<b>(6,795)</b>
<b>Increase/(decrease) in cash for the year</b>	(b)	<b>720</b>	<b>(914)</b>

# Notes to the Group statement of cash flows

for the year ended 10th October 1997

	1997	1996		
	£000	£000		
<b>(a) Reconciliation of net cash flow to movement in net debt</b>				
Increase/(decrease) in cash in the year	720	(914)		
Cash outflow from bank loan repayments	750	4,250		
Cash outflow from repayment of loan notes 2000/2002	2,380	1,020		
Capital element of finance lease rental payments	2,531	1,349		
Change in net debt resulting from cash flows	6,381	5,705		
 New finance leases	(7,430)	(2,891)		
Amortisation of issue costs	(80)	(133)		
Movement in net debt in the year	(1,129)	2,681		
Opening net debt	(14,667)	(17,348)		
 Closing net debt	(15,796)	(14,667)		
 <b>(b) Analysis of net debt</b>				
	At 11 October 1996 £000	Cash flow £000	Other non-cash changes £000	At 10 October 1997 £000
Cash at bank and in hand	1,809	1,219	-	3,028
Overdrafts	(385)	(499)	-	(884)
	1,424	720	-	2,144
 Debt due after one year	(3,050)	3,130	(80)	-
Finance leases	(13,041)	2,531	(7,430)	(17,940)
 Total	(14,667)	6,381	(7,510)	(15,796)



# Notes to the accounts

at 10th October 1997

## 1. Accounting policies

### *Basis of preparation*

The accounts have been prepared under the historical cost convention, modified where appropriate to incorporate the professional valuation of certain fixed assets, and in accordance with applicable accounting standards. The directors consider it appropriate to continue to adopt the going concern basis in preparing the accounts.

### *Basis of consolidation*

The group accounts consolidate the accounts of Metroline plc and all its subsidiary undertakings drawn up to 10 October 1997. No profit and loss account is presented for Metroline plc as permitted by section 230 of the Companies Act 1985.

All subsidiaries have been included in the group accounts using the acquisition method of accounting.

### *Goodwill*

Depending on the circumstances of each acquisition, purchased and consolidated goodwill is either set off directly against reserves or amortised through the profit and loss account over the directors' estimate of its useful life.

### *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at historical cost or valuation less accumulated depreciation. Depreciation is provided on the straight line basis over the estimated useful lives of the assets as follows:

Freehold buildings	-	10 years
Plant and equipment	-	range from 1 to 10 years
Buses	-	range from 3 to 17 years

Freehold land is not depreciated.

### *Leased assets*

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

The cost of operating leases is charged directly to the profit and loss account over the period of the leases on a straight line basis.

### *Stocks*

Stocks consist primarily of materials required for the operation and maintenance of buses. These materials are valued at the lower of cost and net realisable value to the company.

# Notes to the accounts

at 10th October 1997

## 1. Accounting policies (continued)

### *Pensions*

The group operates a defined benefit pension scheme for certain employees, the assets of which are held in trustee administered funds. The group's pension costs are assessed in accordance with the advice of a qualified actuary on the basis of final pensionable earnings.

In addition, the group also operates a matched money purchase scheme, the assets of which are held separately from those of the company and are managed by a third party.

### *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation only to the extent that it is probable that an actual liability will crystallise.

### *Capital instruments*

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and otherwise are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

## 2. Turnover and profit before taxation

The group's turnover, which is stated net of value added tax, and profit before taxation derive from the provision of road passenger transport services in and from the Greater London area.

## 3. Operating profit

This is stated after charging:		1997	1996
		£000	£000
Auditors' remuneration	- audit	67	44
	- non-audit services	81	70
Land and buildings rentals under operating leases		297	276
Hire rentals under operating leases		284	284
Depreciation	- owned assets	276	280
	- assets held under finance leases and hire purchase contracts	1,821	2,364

In addition to the remuneration paid to the company's auditors stated above, a further amount of £160,000 was paid for non-audit services, and has been deducted from the share premium account.

# Notes to the accounts

at 10th October 1997

## 4. Staff costs

Staff costs during the year were as follows:	1997	1996
	£000	£000
Wages and salaries	16,722	16,549
Social security costs	1,386	1,359
Other pension costs	671	802
Redundancy payments	37	48
	<b>18,816</b>	<b>18,758</b>

The average number of persons employed by the group during the year was as follows:

	1997	1996
	No.	No.
Traffic operations	1,052	1,098
Engineering and maintenance	97	97
Administration	51	52
	<b>1,200</b>	<b>1,247</b>

## 5. Directors' emoluments

	Basic salary and fees £	Bonuses £	Other benefits £	Money purchase pension contributions £	Total 1997 £	Total 1996 £
Executive Directors:						
D G O'Farrell	82,961	16,097	10,642	1,610	111,310	96,453
J Gollidge	54,269	9,965	7,381	997	72,612	67,068
M J Smith	52,108	9,581	6,691	958	69,338	63,545
G Tennant	59,719	10,961	8,653	1,096	80,429	71,306
Non-executive Directors:						
A Morris	6,959				6,959	-
A Coppin	4,175				4,175	-
C J Harper	10,316				10,316	10,316
P Simpson	7,708			570	8,278	6,680
	<b>278,215</b>	<b>46,604</b>	<b>33,367</b>	<b>5,231</b>	<b>363,417</b>	<b>315,368</b>

The non-executive directors fees in respect of C J Harper are payable to Granville Private Equity Managers Limited.

In addition to the money purchase contributions paid on behalf of directors, all executive directors are members of the group's defined benefit pension scheme referred to in note 26. Pension entitlement in respect of the defined benefit scheme is calculated only on the salary element of remuneration.

# Notes to the accounts

at 10th October 1997

## 5. Directors' emoluments (continued)

### Details of pensions earned:

	Transfer value of increase in excess of inflation of accrued entitlement	Additional pension earned in excess of inflation	Accrued entitlement	
			1997	1996
	£	£	£	£
D G O'Farrell	9,224	1,390	3,838	2,397
J Gollidge	5,791	1,314	7,234	5,798
M J Smith	11,043	941	2,469	1,497
G Tennant	8,174	2,306	20,117	17,445

### Options to acquire 'D' ordinary shares of the company:

	Number of options granted and exercised during the year	At 10 October 1997	Exercise price
D G O'Farrell	15,920	-	36p
J Gollidge	7,960	-	36p
M J Smith	7,960	-	36p
G Tennant	7,960	-	36p
	39,800	-	

The options were granted under the Metroline 1994 share option scheme, as detailed in note 22.

As part of the capital restructuring of the company, each 'D' ordinary share was converted into 19 new ordinary shares during the year.

The mid-market price of a Metroline plc new ordinary share at 10 October 1997 was £1.96. During the period from flotation to 10 October 1997 the mid-market price ranged between £1.825 and £2.165. All new ordinary shares held by directors as a result of the exercise of options during the year were sold by them in the placing on flotation of the company at a price of £1.73 per share.

The aggregate gain on exercise of share options by the directors amounted to £1,293,898.

6. Interest receivable	1997	1996
	£000	£000
Bank interest	157	112
7. Interest payable	1997	1996
	£000	£000
Loan notes 2000/2002	228	366
Bank loans	14	542
Finance charges payable under finance leases and hire purchase contracts	1,416	1,074
Amortisation of issue costs	80	133
Bank charges	38	37
	1,776	2,152

# Notes to the accounts

at 10th October 1997

<b>8 Tax on profit on ordinary activities</b>	<b>1997</b>	<b>1996</b>
	<b>£000</b>	<b>£000</b>
Based on the profit for the year:		
Corporation tax at current rates	<b>588</b>	<b>1,001</b>

The corporation tax charge for the year has been reduced by the non-provision of deferred tax arising on accelerated capital allowances (see note 20).

Group companies make current year tax losses available to other group companies for payment equivalent to the tax effect of the losses transferred.

## 9. Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £4,785,000 (1996 - £990,000).

<b>10. Dividends and other appropriations</b>	<b>1997</b>	<b>1996</b>
	<b>£000</b>	<b>£000</b>
Non-equity dividends on preference shares:		
Interim paid	<b>7</b>	<b>12</b>
Equity dividends on ordinary shares:		
Final proposed	<b>387</b>	<b>-</b>
Other non-equity appropriations:		
Amortisation of redemption premium on preference shares	<b>181</b>	<b>273</b>

## 11. Earnings per share

The earnings per ordinary share are based on the profit on ordinary activities after taxation divided by the weighted average number of called up ordinary shares during the year. Earnings for the purpose of calculating the earnings per ordinary share were £3,489,000 (1996 - £1,723,000).

The weighted average number of called up ordinary shares was 19,446,006 (1996 - 19,000,000 being 1 million ordinary shares in issue, increased by a factor of 19 to account for the capitalisation issue in the current year).

# Notes to the accounts

at 10th October 1997

## 12. Tangible fixed assets

<i>Group</i>	Buses £000	Freehold land £000	Freehold buildings £000	Plant and equipment £000	Total £000
Cost or valuation:					
At 12 October 1996	25,649	2,680	433	1,601	30,363
Additions	7,779	-	-	12	7,791
Disposals	(2,768)	-	-	(31)	(2,799)
At 10 October 1997	30,660	2,680	433	1,582	35,355
Depreciation:					
At 12 October 1996	13,746	-	127	1,140	15,013
Charge for the year	1,958	-	46	93	2,097
Disposals	(1,875)	-	-	(30)	(1,905)
At 10 October 1997	13,829	-	173	1,203	15,205
Net book value:					
At 10 October 1997	16,831	2,680	260	379	20,150
At 12 October 1996	11,903	2,680	306	461	15,350

### Valuation of freehold land and buildings

The freehold properties, being the aggregate of freehold land and freehold buildings, were valued at £3.5m by external valuers, Healey & Baker International Real Estate Consultants, as at 11 October 1996, on an Existing Use basis in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors.

After receiving advice from Healey & Baker the directors assigned a value of £2,680,000 to the freehold land. The directors feel it would be imprudent to account for the surplus arising on the buildings as they are of the belief that the Existing Use value of the buildings does not exceed the book value included in the accounts.

Freehold land, determined on a historical cost basis, would be as follows:

	1997	1996
	£000	£000
Cost and net book value	1,775	1,775

On 3 December 1993, the operational properties were transferred from London Buses Limited (LBL) to a subsidiary of the company at an Existing Use value. If these properties are sold above this value before 1 April 2004 clawback arrangements are in place such that a proportion of any surplus is repayable to London Regional Transport (LRT).

# Notes to the accounts

at 10th October 1997

## 12. Tangible fixed assets (continued)

### *Prior year exceptional item*

Included in the depreciation charge for the prior year is an amount of £524,000, which represents the directors' estimate of the permanent diminution in value of certain single decker buses.

### *Assets held under finance leases and hire purchase contracts*

Included in the amounts for buses above are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

	1997 £000	1996 £000
Cost or valuation	29,966	25,104
Accumulated depreciation	13,763	13,700
Net book value	16,203	11,404

## 13. Investments

<i>Group</i>	1997 £000	1996 £000
Trade investment at cost	100	100

The trade investment represents the group's 10% holding in the ordinary share capital of Routemaster Reinsurance Limited, a company incorporated in the Republic of Ireland. The members of Routemaster Reinsurance Limited have agreed to voluntarily liquidate that company. The directors are of the opinion that the resulting return of capital will not be less than the cost of the investment.

<i>Company - subsidiary undertakings</i>	1997 £000	1996 £000
Cost	14,434	14,434
Less: provision	549	-
	13,885	14,434

Provision has been made to write down the carrying value of certain subsidiary undertakings.

# Notes to the accounts

at 10th October 1997

## 13. Investments (continued)

Details of the company's principal subsidiary undertakings are as follows:

<i>Name of company</i>	<i>Holding</i>	<i>Proportion of voting rights and shares held</i>	<i>Nature of business</i>
Metroline Travel Limited	Ordinary shares	100%	Bus operator
* Brents Luxury Coach Hire Limited	Ordinary shares	100%	Coach hire and operators of coach tours
Metroline Nominees Limited (formerly Atlas Bus and Coach Limited)	Ordinary shares	100%	Dormant
Brents Travel Group Limited	Ordinary shares	100%	Dormant
* Brents Travel Services Limited	Ordinary shares	100%	Dormant

\* Shares are held by Brents Travel Group Limited.

## 14. Stocks

	<i>Group</i>		<i>Company</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Bus maintenance stocks	339	247	-	-
Fuel and lubricants	139	141	-	-
	478	388	-	-

## 15. Debtors

	<i>Group</i>		<i>Company</i>	
	<i>1997</i>	<i>1996</i>	<i>1997</i>	<i>1996</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Amounts falling due within one year:</i>				
Trade debtors	3,313	3,207	-	-
Value added tax	952	783	-	-
Fuel duty rebate	302	67	-	-
Other debtors	253	122	7	27
Prepayments and accrued income	757	596	17	8
	5,577	4,775	24	35
<i>Amounts falling due after more than one year:</i>				
Amounts due from subsidiary undertakings	-	-	476	476
Advance corporation tax	97	-	97	-
	5,674	4,775	597	511



# Notes to the accounts

at 10th October 1997

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

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Bank overdraft	884	385	-	261
Obligations under finance leases and hire purchase contracts (note 19)	2,716	1,817	-	-
Trade creditors	1,634	1,482	3	-
Amounts due to subsidiary undertakings	-	-	5,416	8,302
Current corporation tax	800	1,070	-	21
Advance corporation tax	178	-	178	-
Other taxes and social security costs	619	599	78	-
Other creditors	94	646	-	-
Accruals and deferred income	4,305	4,276	190	398
Dividends payable	387	-	387	-
	<b>11,617</b>	<b>10,275</b>	<b>6,252</b>	<b>8,982</b>

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

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Loan notes 2000/2002 (note 18)	-	2,380	-	2,380
Bank loans (note 18)	-	750	-	750
Obligations under finance leases and hire purchase contracts (note 19)	15,224	11,224	-	-
	<b>15,224</b>	<b>14,354</b>	<b>-</b>	<b>3,130</b>
Less unamortised issue costs	-	(80)	-	(80)
	<b>15,224</b>	<b>14,274</b>	<b>-</b>	<b>3,050</b>

# Notes to the accounts

at 10th October 1997

## 18. Loans

On 7 October 1994, an amount of £3,400,000 subordinated unsecured £1 loan notes 2000/2002 was issued. The loan notes carried interest at 12% per annum until redemption, payable quarterly. The loan note repayment was in conjunction with the redemption of the preference shares. During the year a repayment of £2,380,000 was made (1996 - £1,020,000) in final settlement of the loan notes.

Bank loans represent the balance of a £6,600,000 six year bank term loan at a rate of interest determined by the bank to be the aggregate of a margin, LIBOR and the mandatory liquid asset costs. Repayments of this bank loan were at six monthly intervals and commenced on 30 September 1995. The quantum of such repayments is based in part on asset disposals and surplus cash flows. During the year a repayment of £750,000 (1996 - £4,250,000) was made in final settlement of the outstanding loans.

	Group		Company	
	1997 £000	1996 £000	1997 £000	1996 £000
Not wholly repayable within 5 years by instalment	-	2,380	-	2,380
Wholly repayable within 5 years by instalment	-	750	-	750
	-	3,130	-	3,130
Less issue costs	-	(80)	-	(80)
	-	3,050	-	3,050

Loans are disclosed in the accounts as follows:

Amounts due within 1 year	-	-	-	-
Amounts due after more than 1 year	-	3,050	-	3,050
	-	3,050	-	3,050

## 19. Obligations under finance leases and hire purchase contracts

Group	1997 £000	1996 £000
Amounts payable:		
within one year	2,716	1,817
within two to five years	11,588	9,934
in more than five years	3,636	1,290
	17,940	13,041

Analysis of changes in finance leases and hire purchase contracts during the year:	£000
At 13 October 1995	11,499
Inception of finance leases	2,891
Capital element of finance lease rental payments	(1,349)
At 11 October 1996	13,041
Inception of finance leases	7,430
Capital element of finance lease rental payments	(2,531)
At 10 October 1997	17,940

# Notes to the accounts

at 10th October 1997

## 20. Deferred taxation

No provision for deferred taxation is provided in the accounts as no liabilities are expected to crystallise within the foreseeable future.

Deferred taxation not provided is as follows:

<i>Group</i>	1997 £000	1996 £000
Capital allowances in advance of depreciation	1,548	870
Other timing differences	(42)	(20)
Revaluation of land	212	249
	<b>1,718</b>	<b>1,099</b>

### *Company*

No deferred tax liability or potential liability arises.

## 21. Share capital

	1997 No.	Authorised 1996 No.
New ordinary shares of 5p each	28,000,000	-
A ordinary shares of 0.1p each	-	526,000
B ordinary shares of 0.1p each	-	175,000
C ordinary shares of 0.2p each	-	276,000
D ordinary shares of 0.1p each	-	23,000
Unclassified shares of 0.1p each	-	50,000
Deferred shares of 0.1p each - non-equity	281,000	5,000
Preference shares of £1 each - non-equity	100,000	100,000

	1997 £	Allotted, called up and fully paid 1996 £
New ordinary shares of 5p each	1,074,515	-
A ordinary shares of 0.1p each	-	526
B ordinary shares of 0.1p each	-	175
C ordinary shares of 0.2p each	-	552
D ordinary shares of 0.1p each	-	23
Deferred shares of 0.1p each - non-equity	-	5
Preference shares of £1 each - non-equity	-	70,000
	<b>1,074,515</b>	<b>71,281</b>

### *Preference shares*

On 15 March 1996, the company redeemed 15,000 preference shares of £1 each at a premium of £4.1256 per share for total consideration of £76,884.

On 13 September 1996, the company redeemed a further 15,000 preference shares of £1 each at a premium of £5.6335 per share for total consideration of £99,502.

# Notes to the accounts

at 10th October 1997

## 21. Share capital (continued)

On 29 July 1997, the company redeemed the remaining 70,000 preference shares of £1 each at a premium of £8.4649 per share for total consideration of £662,540.

### *Ordinary shares*

On 25 June 1997, the 50,000 unclassified shares of 0.1p each were reclassified as D ordinary shares of 0.1p each.

On 15 July 1997, 39,800 D ordinary shares of 0.1p each were issued to option holders for cash consideration of £14,328 pursuant to the exercise of options granted under the Metroline 1994 Unapproved Share Option Scheme.

On 29 July 1997, the 175,000 B ordinary shares of 0.1p each, the 276,000 C ordinary shares of 0.2p each and the 62,800 D ordinary shares of 0.1p each in issue at that date were converted into 513,800 A ordinary shares of 0.1p each and 276,000 deferred shares of 0.1p each.

On 29 July 1997, the company entered into a contract for the purchase, out of distributable reserves, of the 281,000 issued deferred shares of 0.1p each, at par, for cash consideration of £281. On the same date the issued 1,039,800 A ordinary shares of 0.1p each were redesignated as 1,039,800 ordinary shares of 0.1p each, and the authorised share capital of the company was increased by £1,398,669 by the creation of a further 1,398,669,000 ordinary shares of 0.1p each. The holders of the issued 1,039,800 ordinary shares of 0.1p each were then allocated a further 949 such shares for each share held. Finally, all ordinary shares of 0.1p each were consolidated by conversion of 50 such shares into one new ordinary share of 5p each.

On 29 July 1997, 1,734,104 new ordinary shares of 5p each were allotted at £1.73 each for total cash consideration of £3 million on flotation of the company on the London Stock Exchange.

## 22. Share options

On 25 June 1997, the company fulfilled its obligations under the terms of the Investor Agreement dated 7 October 1994 between the shareholders of the company, and completed the share option arrangements for directors and executives of the company. Under the scheme, options over 39,800 and 10,200 D ordinary shares were granted to the directors and executives respectively, exercisable at the market value of the shares at 7 October 1994, being 36 pence per share. The options granted to the directors were exercised on 15 July 1997 (note 21). The options granted to the executives are exercisable at the earlier of 31 March 1999 and the date of the publication of the accounts for the year ending 9 October 1998. Following the capitalisation issue, the outstanding options represent 193,800 new ordinary shares of 5p each at a revised exercise price of 5 pence each.

Under the Metroline plc Employee Share Option Scheme, on 21 July 1997 the company granted options over 13,266 A ordinary shares of 0.1p each at an exercise price of £32.87 per share. These options were converted into options over 252,054 new ordinary shares of 5p each at an exercise price of £1.73 following the capital restructure. Subsequent to the grant, 21,945 options have lapsed.

At the year end a total of 230,109 such options were outstanding, exercisable in normal circumstances after 29 July 2000.

# Notes to the accounts

at 10th October 1997

## 23. Reconciliation of shareholders' funds and movements on reserves

<i>Group</i>	Share capital £000	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 13 October 1995	101	298	-	-	(5,251)	(4,852)
Profit for the year					2,008	2,008
Dividends and appropriations					(285)	(285)
Surplus arising on revaluation of land				905		905
Preference share capital redeemed	(30)				(146)	(176)
Capital redemption reserve			30		(30)	-
Other appropriations added back					273	273
At 11 October 1996	71	298	30	905	(3,431)	(2,127)
Profit for the year					3,677	3,677
Dividends and appropriations					(575)	(575)
Issue of shares	87	2,928				3,015
Costs of share issue		(919)				(919)
Capital restructure	987				(987)	-
Preference share capital redeemed	(70)				(593)	(663)
Capital redemption reserve			70		(70)	-
Other appropriations added back					181	181
At 10 October 1997	1,075	2,307	100	905	(1,798)	2,589

Goodwill amounting to £6,751,000, arising on the acquisition of Metroline Travel Limited, was written off against the profit and loss account in October 1994.

# Notes to the accounts

at 10th October 1997

## 23. Reconciliation of shareholders' funds and movements on reserves (continued)

<i>Company</i>	Share capital £000	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total shareholders' funds £000
At 13 October 1995	101	298	-	1,712	2,111
Profit for the year				990	990
Dividends and appropriations				(285)	(285)
Preference share capital redeemed	(30)			(146)	(176)
Capital redemption reserve			30	(30)	-
Other appropriations added back				273	273
At 11 October 1996	71	298	30	2,514	2,913
Profit for the year				4,785	4,785
Dividends and appropriations				(575)	(575)
Issue of shares	87	2,928			3,015
Costs of share issue		(919)			(919)
Capital restructure	987			(987)	-
Preference share capital redeemed	(70)			(593)	(663)
Capital redemption reserve			70	(70)	-
Other appropriations added back				181	181
At 10 October 1997	1,075	2,307	100	5,255	8,737

## 24. Capital commitments

Amounts contracted for but not provided in the accounts amounted to £1,892,000 for the group and £nil for the company (1996 - £2,554,000 for the group and £nil for the company).

## 25. Lease commitments

The annual commitments under non-cancellable operating leases are as follows:

<i>Group</i>	Land and buildings		Other	
	1997 £000	1996 £000	1997 £000	1996 £000
Operating leases which expire:				
within one year	102	110	19	51
within two to five years	99	171	209	193
over five years	63	-	-	-
	264	281	228	244

# Notes to the accounts

at 10th October 1997

## 26. Pension commitments

### *Defined benefit scheme*

The group operates a defined benefit pension scheme for employees of Metroline Travel Limited who were employed prior to 7 October 1994. The scheme is now closed to new members.

Members contribute at a rate of 5% of pensionable pay, and the group has contributed at a rate of 9.9% of pensionable pay to 31 March 1997.

An actuarial valuation of the scheme at 31 March 1997 indicated that the scheme had a surplus of £416,000. Using the "Projected Unit" method with a three year control period, the future service group contribution rate is 12.4% of pensionable pay. The group has taken the actuary's advice and is amortising the surplus over three years. The resultant group contribution rate is 10.2% until 31 March 2000, and 12.4% thereafter. The next actuarial valuation is due at 31 March 2000.

The contributions are determined by an independent qualified actuary making certain assumptions. The most important assumptions made for the actuarial valuation at 31 March 1997 are as follows:

Excess of rate of investment return over rate of salary growth	- 2% per annum
Rate of pension increases in excess of the Guaranteed Minimum Pension	- 4.5% per annum
Market value of scheme's assets (unaudited)	- £3,588,000

Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases - 113%

At 10 October 1997 the amount owed to the scheme by the group was £74,000 (1996 - £146,000).

### *Money purchase scheme*

The group also operates a matched money purchase pension scheme for new employees with one year's service.

## 27. Contingent liabilities

Metroline Travel Limited, a subsidiary undertaking of the company, has granted a cross guarantee, debenture and indemnity in favour of Société Générale (in its capacity as security trustee for itself and Soc Gen Lease Limited) guaranteeing all group secured liabilities which, at 10 October 1997, were £7.8m (1996 - £10.2m).

All companies in the group are party to a cross guarantee in favour of the group's bankers. The total overdraft within the group at the year end was £884,000 (1996 - £385,000).

The company has guaranteed certain hire purchase liabilities of Metroline Travel Limited, which amounted to £4,689,000 at the year end.

# Notes to the accounts

at 10th October 1997

## 28. Trusts associated with the company

### *The Metroline Profit Sharing Scheme*

The Metroline Profit Sharing Scheme was established by a deed dated 30 January 1995 made between the company and its wholly owned subsidiary undertaking, Metroline Profit Sharing Trustee Limited, as trustee. The directors of the trustee are J Golledge and three employee representatives (G Goodridge, M Loughlin, and K Yerby).

The company will not provide the trustee with any further funds to acquire shares in the company without prior approval of the company in general meeting.

At the year end the trustee held 4,263,125 new ordinary shares of 5p each. The beneficiaries are entitled to sell up to 4,010,786 of the shares held by the trustee, and will be entitled to sell the remaining 252,339 shares after 26 March 1998.

### *The Metroline Employee Benefit Trust*

The Metroline Employee Benefit Trust was established by a deed dated 7 October 1994 for the benefit of employees and former employees of the group and their dependents. The trustee is Metroline Trustee Limited, a wholly owned subsidiary undertaking of the company, the directors of which are J Golledge and three employee representatives (E Vaughan, L Ferns, and K Yerby).

The company will not issue further shares to the trustee, nor will it provide the trustee with any further funds to acquire shares in the company, without prior approval of the company in general meeting.

At the year end the trustee held 10,906 new ordinary shares of 5p each.



# Notice of Annual General Meeting

Notice is hereby given that the annual general meeting of the company will be held in the Roxborough Suite, The Harrow Hotel, Pinner Road, Harrow, Middlesex on 11 February 1998 at 11.00am for the following purposes:

## **Ordinary Business**

1. To receive and adopt the directors' report and accounts for the year ending 10 October 1997 together with the auditors report thereon.
2. To reappoint Ernst & Young as auditors of the company and to authorise the directors to fix their remuneration.
3. To re-elect Mr M J Smith as a director of the company.
4. To re-elect Mr D G O'Farrell as a director of the company.
5. To confirm the final dividend of 1.8p per ordinary share recommended by the directors in respect of the year ending 10 October 1997.

## **Special Business**

To consider and if thought fit to pass the following resolutions which will be proposed as special resolutions:

6. That each of the unissued redeemable preference shares of £1 each and deferred shares of 0.1 pence each in the capital of the company be and is hereby cancelled and that the company's share capital be diminished accordingly.
7. That the directors be generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the company to allot relevant securities (as defined in that section) up to a maximum nominal amount of £379,000 provided that such authority (unless previously revoked, varied or renewed) shall expire at the conclusion of the annual general meeting of the company next following the date of the passing of this resolution (save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired) and shall be in substitution for any and all authorities previously conferred upon the directors for the purposes of section 80 of the Act.

## Notice of Annual General Meeting

- 8 That the directors be empowered pursuant to section 95 of the Act to allot equity securities (as defined in section 94(2) of the Act) for cash pursuant to the authority referred to in paragraph 7 above as if section 89(1) of the Act did not apply to any such allotment, such power to expire at the conclusion of the annual general meeting of the company next following the date of the passing of this resolution (save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired) and to be limited to:
- 8.1 the allotment of equity securities in connection with an offer of securities open for acceptance for a period fixed by the directors or (where applicable) in accordance with the rights for the time being attached to such shares (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems under the laws of any territory or the requirements of any regulatory body or any stock exchange in any territory or in connection with fractional entitlements or otherwise);
- 8.2 the allotment (other than pursuant to sub-paragraph 8.1 above) of equity securities for cash up to an aggregate nominal amount of £53,000.

By order of the Board



J Golledge  
Secretary

January 1998

### Notes:

- 1 A Member is entitled to appoint a Proxy who need not be a member of the company, to attend and vote instead of him. A form of proxy is enclosed. Completion of a form of proxy will not preclude a member from attending and voting at the meeting in person.
- 2 Beneficiaries under the Metroline Profit Sharing Scheme and individuals whose shares are registered in the name of Metroline Nominees Limited may complete a form of proxy and return it to the Registrars in accordance with the instructions printed thereon. Such forms of proxy will be treated as forms of direction to Metroline Profit Sharing Trustee Limited and Metroline Nominees Limited respectively on how to vote that person's shares.