

LYNX EXPRESS LIMITED
(REGISTERED NUMBER 03284685)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2006



LYNX EXPRESS LIMITED

Report and financial statements 2006

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LYNX EXPRESS LIMITED

Officers and Professional advisers

Directors

J Barber
W Flick
HM Mensing
E Plamp

Company Secretary

E Plamp

Registered office

UPS House
Forest Road
Feltham
Middlesex
TW13 7DY

Solicitors

Barlow Lyde & Gilbert LLP
Beaufort House
15 St Botolph Street
London
EC3A 7NJ

Bankers

Barclays Bank
London Corporate Centre
PO Box 46116
London
EC4N 8WB

Auditors

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
4 Brindley Place
Birmingham
B1 2HZ

LYNX EXPRESS LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2006

The directors submit herewith their annual report and audited financial statements for the 15 month period ended 31st December 2006

PRINCIPAL ACTIVITIES

The principal activity of the company is the transportation of parcels, including the provision of tailored logistics solutions

BUSINESS REVIEW

Lynx Express Limited was acquired by UPS on 1st October 2005

Whilst the business has continued to trade in traditional markets and provide the same service offerings, this 15 month period represents the first under UPS ownership. As such, the focus has been on integration and to capitalise on the benefits of combining the Lynx and UPS businesses

A single supervisory board has been appointed to manage the combined Lynx and UPS business for the UK and Ireland district

Integration of the sales teams took place at an early point to enable cross selling of products within a recognised single customer relationship

The turnover for the period reached £194.5m (2005 - £167.9m). The increase is due to the period being a 15 month duration. The negative operating margin decreased to 10.0% (2005 - 11%) reflecting to the competitive pressures in the market and the migration of the international segment to UPS Ltd

The Net Liabilities position was £16.1m (2005 - £4.8m). The movement was attributable to the increase in amounts owed to group subsidiaries

The Lynx International portfolio migrated to UPS contract terms, thus eliminating conflicting agreements for non UK services through Lynx Euro Express and UPS Global Distribution Alliance. Lynx revenue streams have therefore been reduced to reflect purely domestic activity

Operationally, this period represented the first phase of a three year plan to fully integrate and produce a unified network. Building on the integration and unified network the directors remain confident that the group's business will continue to develop and deliver strong returns

Competitive pressures in the market are a continuing risk to all those operating in the industry. The company manages the risk by providing and implementing innovative UPS services which adds greater value to those services

RESTATEMENT

The comparatives have been restated as detailed in note 2 for FRS17 (Retirement benefits) and FRS 25 (Financial Instruments Presentation) as specified for companies with periods commencing on or after 1st January 2005

RESULTS AND DIVIDENDS

The results for the period are set out on page 7 of the financial statements and show an operating loss of £19,787,000 (2005 - £2,329,000) on turnover of £194,548,000 (2005 - £167,861,000). The directors have not proposed a dividend (2005 - £0)

DIRECTORS

Directors who have served throughout the period and to the date of this report unless otherwise indicated are as follows

W Flick

H M Mensing

S Densson

appointed 24 May 2006, resigned 11 September 2006

J Barber

appointed 24 May 2006

W F Caplan

resigned 24 May 2006

E Plamp

resigned 24 May 2006, reappointed 11 September 2006

None of the directors in office at the date of this report had a beneficial interest in any contract or arrangement of significance to which the company was a party during the period

LYNX EXPRESS LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2006 (CONTINUED)

DIRECTORS' INTERESTS

No director had any interest in the share capital of the company during the period. There are no disclosable interests in the shares of other group companies.

SUPPLIER PAYMENT POLICY

The company's policy, which is also applied by the group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

FINANCIAL RISK MANAGEMENT

The company is exposed to price risks, including market, currency and interest rate risk, along with credit, liquidity and cash flow risk. The company has adopted risk management policies that seek to mitigate these risks in a cost-effective manner.

Financial assets that expose the company to financial risk consist principally of cash, trade receivables and other receivables. Financial liabilities that expose the company to financial risk consist principally of trade payables and other payables. The financial risks associated with these financial instruments are considered minimal.

Foreign Exchange risk

The directors are of the view that the company is not exposed to any significant foreign exchange risk.

Interest rate risk

Interest-bearing financial assets and liabilities are all short term. Hence with the current interest rate level any future variation in interest rates will not have a material impact on net loss.

Credit Risk

The company places its cash with creditworthy institutions. The company performs ongoing credit evaluation of its customers' financial condition. The carrying amounts of cash, trade receivable and other receivables represent the maximum credit risk that the company is exposed to. The trade receivables are distributed in such a manner that the concentration of credit risk is not considered extraordinary.

Liquidity Risk

The company is dependent on its related company for continued financial support and the directors are satisfied that the financial support will be available when required.

Fair value of Financial assets and financial liabilities

The carrying amounts of cash and bank balances, trade and other current receivables and payables approximate their fair values due to the relatively short-term maturing of these financial instruments.

CHARITABLE AND POLITICAL CONTRIBUTIONS

No charitable or political donations were made during the year.

GOING CONCERN BASIS

After making appropriate entries the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

LYNX EXPRESS LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 31 DECEMBER 2006 (CONTINUED)

DISABLED EMPLOYEES

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

EMPLOYEES' INVOLVEMENT

The company recognises the need to provide information to employees on issues affecting them and the performance of the company. This is achieved through periodic management meetings and the publication of information bulletins.

AUDITORS

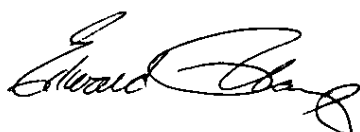
Each of the persons who is a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware and

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by



E PLAMP
Company Secretary
29 November 2007

UPS House
Forest Road, Feltham, Middlesex, TW13 7DY

LYNX EXPRESS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

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

LYNX EXPRESS LIMITED

Independent auditors' report to the members of Lynx Express Limited

We have audited the financial statements of Lynx Express Limited for the 15 month period ended 31 December 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Historical cost profit and loss, the Balance sheet and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Birmingham, UK

19 November 2007

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LYNX EXPRESS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2006

	<u>Notes</u>				Restated - Note 2		
		Before	Exceptional	Total	Before	Exceptional	Total
		Exceptional Items 2006	Items 2006 15 months		Exceptional Items 2005	Items 2005 52 weeks	
		£'000	£'000	£'000	£'000	£'000	£'000
TURNOVER	1	194,548	-	194,548	167,861	-	167,861
Operating charges	3	(214,185)	(150)	(214,335)	(169,728)	(462)	(170,190)
OPERATING LOSS		(19,637)	(150)	(19,787)	(1,867)	(462)	(2,329)
Profit on disposal of Fixed assets		-	6,319	6,319	-	-	-
Profit on disposal of Investments		-	681	681	-	-	-
Interest receivable	5	630	-	630	527	-	527
Interest payable	6	(2,177)	-	(2,177)	(2,733)	-	(2,733)
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(21,184)	6,850	(14,334)	(4,073)	(462)	(4,535)
Tax on (loss)/profit on ordinary activities	7			3,746			1,273
LOSS FOR THE PERIOD				(10,588)			(3,262)

All results derive from continuing activities

The Notes on pages 10 to 26 form part of these financial statements

LYNX EXPRESS LIMITED

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE PERIOD ENDED 31 DECEMBER 2006**

	2006 £'000	<u>Restated - Note 2</u> 2005 £'000
Deficit for the period transferred to reserves	(10,588)	(3,262)
Actuarial gain / (loss) relating to the Pension Scheme	2,000	(1,200)
UK deferred tax (charge)/credit attributable to the actuarial gain / (loss)	(2,700)	360
Other	7	63
	<hr/>	<hr/>
Total recognised losses relating to the period	(11,281)	(4,039)
Prior year restatement	(10,606)	
Total recognised losses recognised since the last financial statements	(21,887)	<hr/>

**NOTE OF HISTORICAL COST PROFITS AND LOSSES
FOR THE PERIOD ENDED 31 DECEMBER 2006**

	2006 £'000	<u>Restated - Note 2</u> 2005 £'000
Loss on ordinary activities before taxation	(14,334)	(4,535)
Difference between the historical cost depreciation charge and the actual depreciation charge for the period calculated on the revalued amount	(168)	(156)
	<hr/>	<hr/>
Historical cost loss on ordinary activities before taxation	(14,502)	(4,691)
	<hr/>	<hr/>
Historical cost loss for the period retained after taxation	(10,756)	(3,418)
	<hr/>	<hr/>

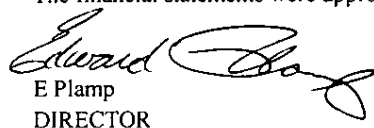
LYNX EXPRESS LIMITED

BALANCE SHEET - 31 DECEMBER 2006

			<u>Restated - Note 2</u>	
	<u>Notes</u>	<u>2006</u> £'000	<u>2006</u> £'000	<u>2005</u> £'000
FIXED ASSETS				
Tangible assets	9		24,665	28,646
Investments	10		10,053	34
			<u>34,718</u>	<u>28,680</u>
CURRENT ASSETS				
Stocks	13	650		654
Debtors falling due within one year	14	35,035		25,302
Debtors falling due after one year	14	-		1,250
Cash at bank and in hand		1,371		3,889
		<u>37,056</u>		<u>31,095</u>
CREDITORS - amounts falling due within one year	15	(25,281)		(28,509)
NET CURRENT ASSETS			<u>11,775</u>	<u>2,586</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>46,493</u>	<u>31,266</u>
CREDITORS - amounts falling due after one year	16		(55,553)	(29,185)
Pension - defined benefit liabilities	22		(7,000)	(6,860)
NET LIABILITIES			<u>(16,060)</u>	<u>(4,779)</u>
CAPITAL AND RESERVES				
Called up share capital	18,20		582	582
Capital redemption reserve			25	25
Share premium	20		1,493	1,493
Revaluation reserve	20		2,852	4,369
Other reserves	19		1,928	1,928
Profit and loss account	20		(22,940)	(13,176)
SHAREHOLDERS' DEFICIT	21		<u>(16,060)</u>	<u>(4,779)</u>

The notes on pages 10 to 26 form part of these financial statements

The financial statements were approved by the Board on 29 November 2007 and signed on their behalf by


E Plamp
DIRECTOR

LYNX EXPRESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006

I ACCOUNTING POLICIES

Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below and have been applied consistently in the current and preceding period, apart from FRS 17 (Retirement benefits) and FRS 25 (Financial Instruments Presentation) which have been adopted in the period.

Accounting convention

The financial statements are prepared under the historical cost convention, modified to include the revaluation of certain fixed assets.

Group accounts

The company has taken advantage of the exemption granted under section 228 of the Companies Act 1985 not to produce group accounts since it is a subsidiary of UPS (UK Holdings) Limited. UPS (UK Holdings) Limited is in turn a subsidiary of UPS Inc who produce consolidated Financial statements which includes Lynx Express Limited. The company is also, on this basis, exempt from the requirement of FRS 1 (revised) to present a cash flow statement.

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation of tangible fixed assets is provided at rates calculated to reduce their cost to estimated realisable value at the end of their anticipated useful lives.

The rates used and applied to original cost are such that they will fully depreciate the assets over the following periods:

Freehold buildings	20 to 40 years
Short leasehold premises	Over the life of the lease
Fixtures, fittings, tools and equipment	3 to 10 years
Motor Vehicles	3 to 11 years

Freehold land is not depreciated.

Revaluation of properties

Individual freehold and leasehold properties are revalued every three years with the surplus or deficit on book value being transferred to the revaluation reserve.

Investments

Investments held as fixed assets are stated at cost less provision for impairment in value.

Stocks

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

Foreign currency

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Intangible assets - goodwill

Goodwill arising on acquisitions in the year ended 30 September 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

LYNX EXPRESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006

(CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

Pension costs

For the defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triannually and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Leases

Assets held under finance leases and the related obligations are capitalised at their fair value on acquisition and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Operating lease rentals are charged to the profit and loss account in equal amounts over the lease term.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences, which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date.

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

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

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

Turnover

Turnover represents the value of services invoiced to customers and other group companies for forwarding of parcels and freight both domestically and internationally together with amounts invoiced to group undertakings for services rendered on their behalf. It is stated net of value added tax and duty.

Turnover, pre-tax profits and net assets are materially attributable to the provision of services as parcel and freight forwarders and customs clearance agents and for the provision of services to other group companies.

LYNX EXPRESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006

2 CHANGES IN ACCOUNTING POLICY

FRS 17 - Retirement benefits

The company's policy in respect of pensions was changed during the period to adopt Financial Reporting Standard No 17 "Retirement Benefits"

The previous policy recognised a charge to the profit and loss account for the regular service cost of the scheme so as to spread the cost of pensions over the service lives of the employees, in accordance with SSAP 24 'accounting for pension costs'. Variations from regular cost were charged or credited to the profit and loss account over the estimated average remaining life of the employees

The new policy is to recognise the regular service cost of providing benefits to employees during the year, together with the cost of any benefits relating to past service. These costs are charged to operating profit in the year

The interest cost on retirement benefit scheme liabilities less the expected return on the assets of the scheme during the year, based on the market value of the scheme at the start of the year, is charged as other finance charges to profit before taxation in the year

The difference between the market value of assets and the actuarial value of pension liabilities is shown as a liability in the balance sheet, net of deferred tax

Differences between actual and expected returns on assets and experience gains/(losses) arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in the statement of total recognised gains and losses during the year

FRS 25 - Financial Instruments Presentation

Preference shares previously treated as equity have been reclassified within creditors greater than 1 year in line with FRS 25

The comparative figures in the primary statements and related notes to the financial statements have been restated to reflect the new policies

The effect of the change in policies are summarised below

Impact of adoption on the Profit and Loss account

	2005 as previously reported <u>£'000</u>	Effect of account restatement <u>£'000</u>	Restated 2005 <u>£'000</u>
Operating charges	169,176	1,014	170,190
Interest receivable	(27)	(500)	(527)
Tax on profit on ordinary activities	(1,119)	(154)	(1,273)

Impact of adoption on the Balance Sheet

Pension liability	-	(6,860)	(6,860)
Debtors falling due after 1 year	5,350	(5,350)	-
Deferred Tax (Liability)/Asset	(354)	1,604	1,250
Profit and Loss reserve	(2,570)	(10,606)	(13,176)
Creditors falling due after 1 year	(21,057)	(8,128)	(29,185)
Equity	(10,203)	8,128	(2,075)

Given that FRS17 has been fully adopted in the period, a calculation of the SSAP 24 charge for the period and the resulting provision or prepayment has not been performed. The effect of the change in accounting policy on the results for the period ended 31 December 2006 and the balance sheet at that date have therefore not been disclosed

LYNX EXPRESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006

3 OPERATING CHARGES	Restated -Note 2			
	2006	2005		
	£'000	£'000		
Raw Materials, consumables and other purchases	17,023	16,905		
Staff Costs				
Wages and salaries (including exceptional items of redundancy) (2006 - £150,000) (2005 -£462,000)	61,908	47,705		
Social security costs	5,296	4,249		
Other pension costs	4,665	2,919		
Depreciation of own tangible fixed assets	4,078	2,662		
Depreciation on assets held under finance leases	138	23		
<u>Other Operating charges</u>				
Operating lease rentals (including short term hire)				
Revenue earning vehicles	6,025	8,041		
Plant and machinery	1,437	1,329		
Land and buildings	5,988	4,461		
Auditors' remuneration				
Fees payable to the Companies auditors for audit of the companies accounts	99	57		
Tax services	50	65		
Other	107,628	121,227	81,774	95,727
Total operating charges		<u>214,335</u>		<u>170,190</u>

LYNX EXPRESS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006
(CONTINUED)**

4 EXCEPTIONAL ITEMS REPORTED AFTER OPERATING LOSS

The effects of the exceptional items reported after operating loss on the amounts charged to the profit and loss account for taxation were

	2006 £'000	2005 £'000
Profit on sale of tangible fixed assets of continuing operations	6,319	-
Profit on sale of Investments	681	-
Decrease in charge to profit and loss account	<u>7,000</u>	<u>-</u>

5 INTEREST RECEIVABLE AND SIMILAR INCOME

	2006 £'000	Restated-note 2 2005 £'000
Bank interest receivable	330	27
Net income from Pension Scheme	300	500
	<u>630</u>	<u>527</u>

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2006 £'000	Restated-note 2 2005 £'000
Bank loans and overdrafts	1,734	915
Interest payable under finance lease arrangements	123	35
Other interest payable	-	949
Interest due on preference share dividends	320	834
	<u>2,177</u>	<u>2,733</u>

LYNX EXPRESS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006
(CONTINUED)**

7 TAX ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES

	2006 £'000	Restated 2005 £'000
Current tax		
UK corporation tax	-	(349)
Group relief	(5,236)	-
	<u>(5,236)</u>	<u>(349)</u>
Deferred tax		
Origination and reversal of timing differences	1,101	(679)
Adjustments in respect of prior years	149	(91)
Movement in respect of pensions	240	(154)
	<u>1,490</u>	<u>(924)</u>
Total deferred tax		
	<u>(3,746)</u>	<u>(1,273)</u>

Adjustments in respect of previous years arise from the agreement of prior year tax computations

Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below

	2006 £'000	2005 £'000
Loss on ordinary activities before taxation	(14,334)	(3,187)
FRS 17 restatement - Note 2	-	(514)
FRS 25 restatement	-	(834)
Loss on ordinary activities before taxation - after restatement	<u>(14,334)</u>	<u>(4,535)</u>
Loss on ordinary activities at the standard UK rate of tax (30%)	(4,300)	(1,360)
Capital allowances versus depreciation	(233)	(419)
Short term timing differences	60	(169)
Group relief surrendered	1,485	-
Capital gain on disposal of Muswell Hill	2,047	-
Rollover relief claimed on sale of Muswell Hill	(2,047)	-
Profit on sale of Properties	(2,100)	-
Tax losses not utilised	499	1,381
Pension deduction	(240)	30
Items not deductible for tax purposes	(407)	(217)
FRS 17 and 25 restatements	-	405
	<u>(5,236)</u>	<u>(349)</u>

Deferred tax assets/liabilities have not been discounted

LYNX EXPRESS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006
(CONTINUED)**

8 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors who served during this and the preceding period were paid by another group company. It is not possible to split their time for the work spent on Lynx Express Limited.

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

	31 December 2006 Number	1 October 2005 Number
<u>Full Time</u>		
Management and supervisory	895	997
Clerical and wage grade	1,893	1,908
	<u>2,788</u>	<u>2,905</u>

9 TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £'000	Long Leasehold Land and Buildings £'000	Owned Plant and Machinery £'000	Total £'000
<u>Cost or valuation</u>				
At 1 October 2005	14,777	3,574	25,529	43,880
Additions	497	82	2,970	3,549
Disposals	(3,501)	-	(69)	(3,570)
At 31 December 2006	<u>11,773</u>	<u>3,656</u>	<u>28,430</u>	<u>43,859</u>
<u>Depreciation</u>				
At 1 October 2005	374	1,175	13,685	15,234
Charge for the year	323	377	3,516	4,216
Disposals	(194)	-	(62)	(256)
At 31 December 2006	<u>503</u>	<u>1,552</u>	<u>17,139</u>	<u>19,194</u>
<u>Net book value</u>				
At 31 December 2006	<u>11,270</u>	<u>2,104</u>	<u>11,291</u>	<u>24,665</u>
At 1 October 2005	<u>14,403</u>	<u>2,399</u>	<u>11,844</u>	<u>28,646</u>

Fixed assets under finance lease and hire purchase contracts had a net book value at 31 December 2006 of £1,457,976 (2005: £1,596,064).

LYNX EXPRESS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006
(CONTINUED)**

9 TANGIBLE FIXED ASSETS (CONTINUED)

Analysis of land and buildings at cost or valuation

	2006 £'000	2005 £'000
At cost	3,173	2,595
At valuation	12,256	15,756
Total	<u>15,429</u>	<u>18,351</u>

Freehold and long leasehold land and buildings

If the revalued assets were stated on the historic cost basis the amounts would be

	2006 £'000	2005 £'000
At cost	10,543	12,824
Aggregate depreciation	(2,782)	(2,672)
Net book value based on historic cost	<u>7,761</u>	<u>10,152</u>

- a) The company's freehold properties and their long leasehold properties were revalued at April 2004 on the basis of existing use value by independent qualified valuers. The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the United Kingdom by DTZ Debenham Tie Leung, a firm of independent Chartered Surveyors.

These valuations have been incorporated into the financial statements and the resulting revaluation adjustments have been taken to the revaluation reserve. The revaluations during the year ended 2 October 2004 resulted in a revaluation surplus of £1,797,000.

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

- b) Company freehold land at a revaluation of £7,272,000 (2004 - £10,521,000) has not been depreciated.
- c) The directors are satisfied that the previous valuation still reflects current market conditions.
- d) At 31 December 2006 the majority of the company's revenue earning vehicles were held under operating leases. The operating lease rentals are charged to the profit and loss account on a straight-line basis over the terms of the leases. Operating lease commitments in respect of revenue earning vehicles are disclosed in note 23 of these financial statements.

LYNX EXPRESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006 (CONTINUED)

10 INVESTMENTS HELD AS FIXED ASSETS

	Loans to subsidiary undertaking £000	Shares in subsidiary undertaking £000	Total £000
Cost			
At 1 October 2005	-	837	837
Additions	5,900	4,151	10,051
Less Disposals	-	(32)	(32)
At 31 December 2006	5,900	4,956	10,856
Provision at 1st October 2005 and 31st December 2006	-	(803)	(803)
Net book value at 31 December 2006	<u>5,900</u>	<u>4,153</u>	<u>10,053</u>
Net book value at 1st October 2005	<u>-</u>	<u>34</u>	<u>34</u>

The company holds 100% of the issued ordinary shares and voting rights in the following subsidiary undertakings except for Red Star Parcels Limited which is a wholly owned subsidiary of Red Star Limited and Lynx Express BV which is a wholly owned subsidiary of Lynx Holdings BV

	Class of Share Held	Nature of business	Country of incorporation/country of operation
Lynx Express Management Services Ltd	Ordinary	Service company	England and Wales / UK
Lynx Express Pension Trustees Limited	Ordinary	Dormant	England and Wales
Lynx Euroexpress Limited	Ordinary	Dormant	England and Wales
Red Star Limited	Ordinary	Dormant	England and Wales
Red Star Parcels Limited	Ordinary	Transport company	England and Wales / UK
Lynx Holdings BV	Ordinary	Transport company	Netherlands / Netherlands
Lynx Express BV	Ordinary	Transport company	Netherlands / Netherlands
St David's Way Limited	Ordinary	Property company	England and Wales / UK

In the directors' opinion the aggregate value of the shares in the subsidiary undertakings is not less than the amounts at which they are stated in the balance sheet

On 31 December 2006 the company sold its full investment in Lynx Express GmbH of £17,743 for £698,278 (See Note 12)

On 20 December 2006 the company sold its full investment in Pallet Truck of £5,250 for £5,250

LYNX EXPRESS LIMITED**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006
(CONTINUED)****11 ACQUISITION OF SUBSIDIARY UNDERTAKING**

On 9 March 2006 the company acquired 100% of the issued share capital of Bolsterstone(Nuneaton) Limited for a cash consideration of £10,027,383, paying back the £5,900,000 loan on acquisition of the company. This has led to a loan to a subsidiary undertaking (see note 10). The name was subsequently changed to St David's Way Limited.

The following table sets out the book values of the identifiable assets and liabilities acquired.

	2006 £'000 Book Value
Investment property	10,112
Current assets	
Debtors	12
Cash	96
Total assets	<u>10,220</u>
Creditors	
Bank loan	(5,900)
Accruals	(186)
Provisions	
Taxation	(4)
Total liabilities	<u>(6,090)</u>
Net assets	<u>4,130</u>
Satisfied by	
Deferred Tax	407
Share Capital	1
Revaluation reserve	2,725
Profit and loss account	997
	<u>4,130</u>

LYNX EXPRESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006 (CONTINUED)

11 ACQUISITION OF SUBSIDIARY UNDERTAKING (CONTINUED)

St Davids' Way earned a profit after taxation of £577,000 in the year ended 31st December 2006, of which £84,000 arose in the period from 1st January 2006 to 9th March 2006. The summarised profit and loss account shown on the basis of the accounting policies of St Davids' Way prior to the acquisition, are as follows:

Profit and loss account	£'000
Turnover	152
Operating expenses	<u>3</u>
Operating profit	149
Finance charges	<u>65</u>
Profit on ordinary activities before taxation	<u>84</u>

12 SALE OF SUBSIDIARY UNDERTAKING

On 31st December 2006 Lynx Express Ltd sold its 100% interest in the ordinary share capital of Lynx Express GmbH Ltd to UPS Logistics Group International GmbH. The profit of Lynx Express GmbH Ltd for the 15 months up to the date of disposal was £449,000 and for the year 2005 was £257,000.

Net assets disposed of and the related sales proceeds were as follows	£'000
Current assets	1,126
Creditors	(332)
Provisions for liabilities and charges	<u>(79)</u>
Net assets	715
Ordinary shares	(17)
Profit on sale	<u>(681)</u>
Sale proceeds	<u>(698)</u>
Satisfied by	
Cash	<u>698</u>
Net cash inflows in respect of the sale comprised	
Cash consideration	<u>698</u>

13 STOCKS

	2006 £'000	2005 £'000
Consumable stores	<u>650</u>	<u>654</u>

LYNX EXPRESS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006
(CONTINUED)

14	DEBTORS		Restated
		2006 £'000	2005 £'000
	Amounts falling due within one year		
	Trade debtors	20,284	18,623
	Amounts owed by subsidiary undertakings	3,804	3,924
	Corporation tax recoverable	-	181
	Other debtors	590	2,248
	Assets held for re-sale	-	168
	Prepayments and accrued income	5,121	158
	Group relief	5,236	-
		<hr/>	<hr/>
		35,035	25,302
		<hr/>	<hr/>
	Amounts falling due after more than one year		
	Deferred tax asset	-	1,250
		<hr/>	<hr/>
15	CREDITORS (amounts falling due within one year)		Restated
		2006 £'000	2005 £'000
	Bank loans and overdrafts	1,085	-
	Trade creditors	6,631	11,715
	Amounts owed to subsidiary undertakings	8,244	4,911
	Finance leases	156	158
	Other creditors	2,121	985
	Corporation tax	-	8
	Other taxation and social security	2,318	6,182
	Accruals and deferred income	3,613	3,082
	Dividends payable on non-equity shares	1,113	794
	Deferred purchase consideration	-	674
		<hr/>	<hr/>
		25,281	28,509
		<hr/>	<hr/>
16	CREDITORS (amounts falling due after one year)		Restated-note 2
		2006 £'000	2005 £'000
	Amounts owed to group undertakings	46,216	19,648
	Finance leases	1,209	1,409
	Amounts due to preference share holders	8,128	8,128
		<hr/>	<hr/>
		55,553	29,185
		<hr/>	<hr/>

LYNX EXPRESS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006
(CONTINUED)

17 DEFERRED TAXATION

The amounts provided for in the financial statements for deferred taxation and the amounts not provided for are as follows

	Provided (assets)/liabilities	
	2006	2005
	£'000	£'000
Capital allowances in excess of depreciation	999	448
Tax losses	(636)	(1,380)
Other timing differences	(363)	(318)
	<hr/>	<hr/>
	-	(1,250)
	<hr/>	<hr/>
Deferred tax is analysed as follows		
Deferred tax asset less than one year	-	-
Deferred tax asset greater than one year	-	(1,250)

	Not Provided (assets)/liabilities	
	2006	2005
	£'000	£'000
Capital allowances in excess of depreciation	999	-
Tax losses	(1,986)	-
Other timing differences	(363)	-
	<hr/>	<hr/>
	(1,350)	-
	<hr/>	<hr/>

	<u>Deferred Tax Asset</u>	
	2006	2005
	£'000	£'000
Opening balance (DR)/CR	(1,250)	1,126
Current year movement	1,250	(772)
Movement through STRGL	-	(1,604)
	<hr/>	<hr/>
Closing balance (DR)/CR	-	(1,250)
	<hr/>	<hr/>

LYNX EXPRESS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006
(CONTINUED)

18 CALLED UP SHARE CAPITAL

	2006 £'000	Restated (Note 2) 2005 £'000
Authorised		
400,000 Ordinary Shares of £1 each	400	400
1,072,000 A Ordinary shares of 5p each	54	54
128,000 B Ordinary shares of £1 each	128	128
	<u>582</u>	<u>582</u>
Called up, allotted and fully paid		
400,000 Ordinary shares of £1 each	400	400
1,072,000 A Ordinary shares of 5p each	54	54
128,000 B Ordinary shares of £1 each	128	128
	<u>582</u>	<u>582</u>

19 OTHER RESERVES

The other reserve comprises negative goodwill of £1,013,000 on the acquisition of the trade and business of LYNX Express Delivery Network Limited in 1997 and £915,000 relating to a hindsight period adjustment in 1998

20 RESERVES

	Share Capital £'000	Share Premium £'000	Profit and loss account £'000	Revaluation reserve £'000
At 2 October 2005	4,503	5,700	(2,570)	4,369
Prior year restatement (note 2)	(3,921)	(4,207)	(10,606)	-
At 2 October 2005 restated	<u>582</u>	<u>1,493</u>	<u>(13,176)</u>	<u>4,369</u>
Loss for the year	-	-	(10,588)	-
Actuarial Gain relating to the Pension Scheme	-	-	2,000	-
UK deferred tax attributable to the actuarial gain	-	-	(2,700)	-
Property revaluation	-	-	1,517	(1,517)
Other	-	-	7	-
At 31 December 2006	<u>582</u>	<u>1,493</u>	<u>(22,940)</u>	<u>2,852</u>

21 RECONCILIATION OF MOVEMENT IN SHAREHOLDER'S DEFICIT

	2006 £'000	Restated (Note 2) 2005 £'000
Loss for the financial period	(10,588)	(3,262)
Actuarial Gain/(loss) relating to the Pension Scheme	2,000	(1,200)
UK deferred tax attributable to the actuarial (gain)/loss	(2,700)	360
Dividend for the year	-	834
Other	7	63
Net reduction to shareholders' deficit	<u>(11,281)</u>	<u>(3,205)</u>
Opening shareholders' funds as previously stated	13,955	15,959
Prior year FRS 17 restatement (note 2)	(10,606)	(9,405)
Prior year FRS 25 restatement (note 2)	(8,128)	(8,128)
Opening shareholders' deficit as restated	<u>(4,779)</u>	<u>(1,574)</u>
Closing shareholders' deficit	<u>(16,060)</u>	<u>(4,779)</u>

LYNX EXPRESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006 (CONTINUED)

22 PENSION COSTS

The principal pension scheme for group employees is the Lynx Express Pension Plan which is a defined contribution plan, except that the Plan includes certain sections comprising of former NFC Retirement Plan members, which are defined benefit sections. The assets of the Scheme are invested in a Trustee administered fund. The Scheme is funded by contributions from employees and the company, the latter being charged against profits each year.

The ongoing funding level of the Lynx Express Limited Pension Plan was assessed by a qualified actuary in a valuation dated 31 January 2005. At that date, the market value of assets of the Scheme (excluding any Additional Voluntary Contribution funds and annuity contracts held with insurance companies) amounted to £58.6 million.

In the opinion of the Actuary, at the valuation date the Scheme had an on-going funding level of 83% and showed a corresponding deficit of £11.2 million.

Monthly contributions were also made during the period at the following rates:

<u>Age at 6 April</u>	<u>Contribution Rate - % of Pensionable Earnings</u>	
	<u>Member</u>	<u>Company</u>
30 and under	2.50%	2.50%
31-35	2.50%	3.00%
36-40	2.50%	3.50%
41-43	3.50%	4.50%
44-46	3.50%	6.50%
47 and above	4.50%	7.50%

During the 15 month period ending 31 December 2006, the company paid contributions to the Scheme totalling £5.02m (2005 - £2.3m).

FRS 17

A full actuarial valuation was carried out at 31 January 2005 and updated to 31 December 2006 by a qualified independent actuary. The Projected Unit valuation method has been used.

The major assumptions used by the actuary at 31 December 2006 were (in normal terms):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Inflation	3.00%	2.75%	2.80%
Rate of increase in salary	4.00%	3.75%	4.30%
Rate of increase in pension in payment	3.00%	2.75%	2.80%
Rate of increase for deferred pension	3.00%	2.75%	2.80%
Discount rate	5.15%	5.10%	5.60%

The assets in the scheme and the expected rates of return were:

	<u>31 December 2006</u>		<u>30 September 2005</u>		<u>30 September 2004</u>	
	Long term expected rate of return	£'000	Long term expected rate of return	Value £'000	Long term expected rate of return	£'000
<u>Fair value</u>						
Equities/Property	7.00%	42,550	8.35%	36,500	8.50%	31,200
Bonds/cash	4.90%	15,580	4.90%	12,000	5.10%	8,000
Total market value of assets		58,130		48,500		39,200
Present value of liabilities		(65,130)		(58,300)		(47,700)
Deficit in the scheme		(7,000)		(9,800)		(8,500)
Related deferred tax asset		-		2,940		2,550
Net pension liability		(7,000)		(6,860)		(5,950)

LYNX EXPRESS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006
(CONTINUED)**

22 PENSION COSTS (CONTINUED)

Analysis of the amount charged to operating profit

	<u>2006</u>	<u>2005</u>
	£'000	£'000
Current service cost	4,500	2,900
	<u>4,500</u>	<u>2,900</u>

Analysis of the amount credited to net finance charges

	<u>2006</u>	<u>2005</u>
	£'000	£'000
Expected return on pension scheme assets	(4,200)	(3,100)
Interest on pension scheme liabilities	3,900	2,600
	<u>(300)</u>	<u>(500)</u>

Analysis of the actuarial (loss)/gain in the statement of total recognised gains and losses

	<u>2006</u>	<u>2005</u>
	£'000	£'000
Actual return less expected return on pension scheme assets	(3,900)	(5,300)
Experience gains and losses arising on the scheme liabilities	-	500
Changes in assumptions underlying the present value of the scheme liabilities	1,900	6,000
	<u>(2,000)</u>	<u>1,200</u>

Movement in scheme deficit during the period

	<u>2006</u>	<u>2005</u>
	£'000	£'000
At 2 October 2005	(9,800)	(8,500)
Current service cost	(4,500)	(2,900)
Contributions	5,000	2,300
Net finance charge	300	500
Actuarial gain / (losses)	<u>2,000</u>	<u>(1,200)</u>
Closing deficit in scheme	<u>(7,000)</u>	<u>(9,800)</u>

History of experience gains and losses

	<u>Dec 2006</u>	<u>Sept 2005</u>	<u>Sept 2004</u>	<u>Sept 2003</u>
Differences between actual and expected return on scheme assets				
gain amount (£000)	(3,900)	(5,300)	(1,700)	(2,500)
percentage of scheme assets	6 7%	10 9%	4 3%	7 4%
Experience gain /(loss) arising on scheme liabilities				
(gain) / loss amount (£000)	-	500	(200)	(200)
percentage of scheme liabilities		0 9%	0 4%	0 0%
Changes in the assumptions underlying the present value of the scheme liabilities				
loss amount (£000)	1,900	6,000	1,900	1,900
percentage of scheme liabilities	2 9%	10 3%	4 0%	4 5%
Total amounts included in consolidated statement of recognised gains and losses				
(gain) / loss amount (£000)	(2,000)	1,200	-	(800)
percentage of scheme liabilities	3 1%	2 1%	0 0%	1 1%

LYNX EXPRESS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2006 (CONTINUED)

23 FINANCIAL COMMITMENTS

	<u>2006</u> £'000	<u>2005</u> £'000
Capital Commitments		
Authorised but not yet contracted for	-	-
Obligations under finance leases and hire purchase contracts		
Expiring within one year	156	158
Expiring during two and five years	852	769
Expiring after five years	357	640
	<u>1,365</u>	<u>1,567</u>

Operating lease commitments

At 31 December 2006 the company and group had commitments during the next financial year in respect of non-cancellable operating leases as follows

	<u>Land & buildings</u>		<u>Other</u>	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Expiring within 1 year	170	87	3,073	870
Expiring during years 2 to 5	1,467	1,012	946	5,692
Expiring thereafter	2,201	3,358	257	273
	<u>3,838</u>	<u>4,457</u>	<u>4,276</u>	<u>6,835</u>

24 CONTINGENT LIABILITIES

The nature of the company's business and the extent of its operations are such that it is from time to time involved in legal proceedings, as plaintiff or defendant. No such current proceedings are expected to have a material effect on the company.

25 ULTIMATE PARENT UNDERTAKING

The company is a direct subsidiary of UPS (UK Holdings) Limited which is incorporated in Great Britain and registered in England and Wales. The ultimate parent company and controlling party is United Parcel Service, Inc., incorporated in the United States of America, who prepares consolidated accounts. These accounts represent the smallest and largest group for which consolidated accounts are prepared including the results of this company.

The company has taken advantage of the exemption contained within FRS8 (Related Party Transactions) which allows the company not to disclose transactions with group entities or investees of the group qualifying as related parties.