

REGISTRAR'S COPY

COMPANY

NUMBER: 2004963

Reading Transport Limited

Report and Financial Statements

Year ended

30 September 2006

BDO

BDO Stoy Hayward
Chartered Accountants

TUESDAY



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READING TRANSPORT LIMITED

Annual report and financial statements for the year ended 30 September 2006

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Directors

Councillor A W Page	Councillor S M Singleton-White
Councillor A Jones	Mr J Carney
Councillor J E Orton	Mr S Simpson
Mr K Moffatt	Mr D M Downes
Mr F Connelly	Councillor R J Green

Secretary and registered office

Mr J Carney, Great Knollys Street, Reading, Berkshire RG1 7HH

Company number

2004963

Auditors

BDO Stoy Hayward LLP, Kings Wharf, 20-30 Kings Road, Reading, Berkshire RG1 3EX

READING TRANSPORT LIMITED

Report of the directors for the year ended 30 September 2006

The directors present their report together with the audited financial statements for the year ended 30 September 2006

Results and dividends

The profit and loss account of the company is set out on page 8 and shows the result for the year

A dividend amounting to £150,000 was paid to ordinary shareholders during the year (2005 - £324,790)

The directors do not recommend the payment of a final dividend (2005- £Nil)

Principal activities

The main activities of the company remain

- (a) the provision of local bus services within the greater Reading and Newbury areas,
- (b) the sale of coach holidays and operation of an excursion programme,
- (c) the provision of vehicles and drivers for private hire contracts

Post balance sheet events

Colin Thompson stepped down as Managing Director from 31 December 2006 after 16 years of service with the company. The expectation is to make an appointment by 31 March 2007

Review of business and future developments

Trading to Date and Future Prospects

The principal business activities during the year have been to operate bus services in Reading and Newbury plus provision of leisure travel through Goldline Travel our coaching division. The profit and loss account is set out on page 8 and shows turnover for the year of £23.6m and profit after tax for the year of £1.7m. The company's cash position remains strong with cash of £2.4m held at the balance sheet date.

During the year ended 30 September 2006, the company adopted, in full, the requirements of FRS 17 "Retirement Benefits". This has had a significant impact on the company's financial statements. The main impact has been to recognise on the balance sheet a pension scheme liability, net of deferred tax asset, amounting to £10.5m, in respect of the deficit on defined benefit pension schemes operated by the company. This has therefore reduced the company's net assets by an equivalent amount. The result for the year includes a credit of £1.7m in respect of the impact of settlements and curtailments relating to the pension schemes. The company has accounted for the impact of FRS 17 on the results for prior years by way of a prior year adjustment, which has had the effect of reducing brought forward reserves by £9.4m. Further information relating to the company's pension obligations can be found in note 24 to the financial statements.

During the past year, turnover from the company's operations increased by 3.1%. The Company has performed better than expected despite steep increases in the costs of pension contributions, depreciation, and fuel.

READING TRANSPORT LIMITED

Report of the directors for the year ended 30 September 2006 *(continued)*

Trading to Date and Future Prospects *(continued)*

These three cost factors mainly affected the last quarter of 2005/06 and whilst the directors foresee them continuing throughout 2006/07, the rate of increase is not expected to worsen. As a result of these increasing costs, when considering the company's budget for 2006/07, the directors decided not to purchase buses for either of the company's commercial networks. During the past two years these networks have had an ambitious level of capital investment. A further 21 double deck buses were ordered in March 2007 for delivery after September 2007 and at that time the objective of branding Reading's key radial services within three years will be completed.

The company has been successful in retaining large contracts awarded by Vodafone Plc, Thames Valley Business Park, Reading Borough Council and Wokingham District Council. These services include provision of staff shuttle and park and ride services. All the contracts were won with proposals to operate new vehicles. Whilst competition for contracts in Reading and Newbury remains strong and there has been pressure on profits, the Company has been able to retain work within its operating territories.

The Company paid an interim dividend of £150,000 and there was no final dividend recommended by the directors.

The vehicle supply relationship with Scania GB has enabled the Company to make significant savings in the cost of engineering support services and increase vehicle availability. The first buses that complied with Euro IV emission standards were delivered in September 2006.

Risks and Uncertainties Faced By the Company

The business has continued to be a stable organization in terms of labour turnover and competitor pressure for customers and contracts. The fares increase in October 2005 did not cause any noticeable loss of patronage and indeed the on-going transfer to season tickets from on-bus tickets now means that only 33% of customers pay at the time of travel. The company's cash flow from large contracts has been consistent and there are no delinquent debtors.

The business is investing over three years in new vehicles for its Premier Route network. The intention is to purchase some 70 new vehicles (costing approximately £10.5 million) by the autumn of 2007. Most of these buses will be leased to ensure that the business has sufficient medium term liquidity. The company's policy is to fund these assets with fixed interest rate terms over at least seven years. New vehicles will reduce the company's engineering costs and in this way will be partially self-financing.

The cost of fuel rose by 14% during the financial year and this represents a significant risk to the business. The company's policy has been to enter into 12 month fixed price agreements with its fuel suppliers to hedge against this risk.

READING TRANSPORT LIMITED

Report of the directors for the year ended 30 September 2006 (continued)

Main Business KPI's

The company uses the following KPI's to manage its operational and financial activities

Key Performance Indicators	2004/05	2005/06
No of PSV's	209	201
Approximate Fleet Age	8.5 Years	6.9 Years
Turnover/Vehicle	£109,800	£117,600
Turnover/Employee	£43,800	£46,500
Wage Costs as a Percentage of Turnover	60%	59%
Fuel Costs as a Percentage of Turnover	6.3%	6.9%
Depreciation as a Percentage of Turnover	5.1%	6.6%
Percentage of bus conforming to Euro III emission standard or above	61%	83%

Unusual Transactions

The company's Shareholder Reading Borough Council has loaned the company £2,167,990 at a commercial rate of interest to purchase 17 vehicles. Details of the loan are provided in note 29 to the financial statements.

Board Changes, Awards and Recognition

The Board of Directors has been restructured. Councillor Tony Jones was appointed Chair in December 2005 and two new non-executive directors were appointed on 16 January 2006. Francis Connolly (founding partner of Peter Brett Associates) and Keith Moffatt (former Chief Executive of Translink) have considerable experience in bus network and urban planning processes. Colin Thompson left the Board at the end of December 2006 to enable further changes to be made to the skill sets within the Board. The Board thanks Colin Thompson for the significant contribution he made to the business during his time as Traffic Operations and latterly Managing Director. Mr James Freeman has been appointed by the Board as Chief Executive and is expected to take up his new role at the beginning of August 2007.

The Company achieved industry recognition by winning an award from RouteOne magazine for its training program. Currently, 95% of driving staff hold an NVQ level II and there were 3,500 hours of training delivered in 2005/06. A second award of Bus Manager of The Year for our Operations Director was given by RouteOne Magazine recognizing the transformation of the operating standards of the business.

Future Trading Prospects

Reading is an economic hot-spot and the business will match rising service level expectations from its customers (82% of Reading customers are satisfied with all aspects of our services) and stakeholders to remain successful. A report by consultants commissioned by the Company found that the cost of vehicular congestion in the Reading urban area is £52 million per annum. At this level, it is vital that car use be reduced and the role of public transport enhanced. Reading Borough Council recognizes the importance of these pressures on the local economy and managing the road network to encourage bus travel.

Difference between Market Value and Book Value of Land and Buildings

In the opinion of the Directors' the written down values of the land and buildings are not materially different from the market values of those assets.

READING TRANSPORT LIMITED

Report of the directors for the year ended 30 September 2006 *(continued)*

Charitable and political contributions

Contributions made by the company during the year for charitable purposes amounted to £2,763 (2005 - £825) No political contributions were made during the year

Employees

The company through its management team has an uncompromising commitment to customer service, to involve, develop and reward our employees and to developing a culture within the company to be competitive, modern and outward looking

In order to achieve these objectives the company is continually evolving a comprehensive communications system, including a quarterly newsletter and monthly briefing notices, to ensure that employees fully understand what is happening in the company, both in general and financial terms and that the views of our employees are taken into account when decisions are made

The company believes that, in order to secure the future, a substantial investment is needed in training covering management and supervisory skills and customer care competencies. The company employs engineering apprentices at a time when many companies have reduced and even disbanded such schemes

It has always been company policy to treat job applicants and employees in the same fair way regardless of their sex, race, ethnic origin or disability, and we are keen to ensure that a positive caring approach to good equal opportunities practice is being adopted

The company's policy is to recruit disabled workers for those vacancies they are able to fill. Should an employee become disabled it is our policy to continue the current employment when possible, or to offer alternatives where feasible, giving re-training as necessary

Directors

The directors of the company at 30 September 2006, all of whom, unless stated, served throughout the year then ended, were

Councillor A Jones (Chair)
Mr C Thompson (resigned 31 December 2006)
Mr J Carney (Acting Managing Director, Financial Director and Company Secretary)
Mr S Simpson (Operations Director)
Mr D M Downes
Councillor R J Green
Councillor A W Page
Councillor J E Orton
Councillor S M Singleton-White
Mrs B Ticker (resigned 16 January 2006)
Mr C Goodall (resigned 16 January 2006)
Mr F Connelly (appointed 16 January 2006)
Mr K Moffatt (appointed 16 January 2006)

At 30 September 2006, third party indemnity cover in respect of the company's directors was in force

READING TRANSPORT LIMITED

Report of the directors for the year ended 30 September 2006 (Continued)

Directors' interests in shares of the company

None of the directors had any interest in the shares of the company

Directors' responsibilities

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

Company law requires the directors to prepare financial statements for each financial year which 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 year. In preparing those 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 accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the annual general meeting

By order of the Board


P. Carney
Secretary

26-7-07

READING TRANSPORT LIMITED

Report of the independent auditors

To The Shareholders Of Reading Transport Limited

We have audited the financial statements of Reading Transport Limited for the year ended 30 September 2006 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

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

READING TRANSPORT LIMITED

Independent auditor's report (*Continued*)

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 30 September 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
Reading

Date *26 July 2007*

READING TRANSPORT LIMITED

Profit and loss account for the year ended 30 September 2006

	Note	2006 £'000	2005 (restated) £'000
Turnover	2	23,646	22,941
Operating costs	3	21,252	22,357
Operating profit	6	2,394	584
Profit on disposal of fixed assets		212	185
		2,606	769
Interest receivable and similar income		102	100
Interest payable and similar charges	7	(347)	(220)
Other finance costs	8	(229)	(420)
Profit on ordinary activities before taxation		2,132	229
Taxation on profit from ordinary activities	9	413	84
Profit on ordinary activities after taxation		1,719	145

All amounts relate to continuing activities

The notes on pages 13 to 31 form part of these financial statements

READING TRANSPORT LIMITED

Statement of total recognised gains and losses for the year ended 30 September 2006

	Note	2006 £'000	2005 (restated) £'000
Profit for the year		1,719	145
Actuarial gains and losses on defined benefit pension scheme		(2,633)	772
Deferred tax on pension scheme liability		500	(147)
		<hr/>	<hr/>
Total recognised gains and losses for the year		(414)	770
			<hr/>
Prior year adjustment	24	(9,441)	
		<hr/>	
		(9,855)	
		<hr/>	

The notes on pages 13 to 31 form part of these financial statements

READING TRANSPORT LIMITED

Balance sheet at 30 September 2006

	Note	2006	2006	2005	2005
		£'000	£'000	(restated) £'000	(restated) £'000
Fixed assets					
Intangible assets	10		268		289
Tangible assets	11		16,959		14,555
Investments	12		96		96
			<u>17,323</u>		<u>14,940</u>
Current assets					
Stocks	13	313		250	
Debtors	14	1,736		1,737	
Cash at bank and in hand		2,462		2,839	
			<u>4,511</u>	<u>4,826</u>	
Creditors: amounts falling due within one year	15	3,208		5,380	
Net current assets/(liabilities)			<u>1,303</u>	<u>(554)</u>	
Total assets less current liabilities			<u>18,626</u>		<u>14,386</u>
Creditors: amounts falling due after more than one year	16	6,876		2,865	
Provision for liabilities and charges	17	1,080		1,070	
			<u>7,956</u>	<u>3,935</u>	
Net assets excluding pension liability			<u>10,670</u>		<u>10,451</u>
Pension liability	24		<u>(10,553)</u>		<u>(9,770)</u>
Net assets including pension liability			<u>117</u>		<u>681</u>


The notes on pages 13 to 31 form part of these financial statements

READING TRANSPORT LIMITED

Balance sheet at 30 September 2006 (*continued*)

		2006	2005 (restated)
		£'000	£'000
Capital and reserves			
Called up share capital	19	3,974	3,974
Profit and loss account	20	(3,857)	(3,293)
		<hr/>	<hr/>
Equity shareholder's funds	21	117	681
		<hr/>	<hr/>

The financial statements were approved by the Board and authorised for issue on


S Simpson
Director 26/07/07

The notes on pages 13 to 31 form part of these financial statements

READING TRANSPORT LIMITED

Cash flow statement for the year ended 30 September 2006

	Note	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Net cash inflow from operating activities	26		1,715		2,764
Returns on investments and servicing of finance					
Interest received		102		100	
Interest element of finance lease rental payments		(347)		(220)	
			(245)		(120)
Taxation					
UK corporation tax			-		3
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(935)		(1,214)	
Sale of tangible fixed assets		363		682	
			(572)		(532)
Equity dividend paid			(150)		(325)
Cash inflow before use of liquid resources and financing			748		1,790
Financing					
Capital element of finance lease rental payments		(926)		(782)	
Loan repayments		(199)		-	
			(1,125)		(782)
(Decrease)/increase in cash	27, 28		(377)		1,008

The notes on pages 13 to 31 form part of these financial statements

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Prior year adjustment

During the year, the company has fully adopted accounting standard FRS17 "Retirement Benefits". The impact of this standard has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate. Further details are provided under the heading "pension costs" within this note.

Group financial statements

The financial statements contain information about Reading Transport Limited as an individual company and do not contain consolidated information as the parent of a group. The directors have taken the exemption not to include the subsidiary companies within consolidated financial statements because their net assets would not be material to the financial statements.

Goodwill

Purchased goodwill is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is amortised through the profit and loss account over the directors' estimate of its useful economic life. The amortisation charge for the year is set out in note 10.

Tangible fixed assets

All tangible fixed assets are stated at cost, which is their purchase price together with any incidental expenses of acquisition. The purchase price of assets taken over at 20 October 1986 was established by a valuation in accordance with guidelines issued by the Department of Transport.

Depreciation is calculated so as to write off the cost of tangible fixed assets, except freehold land, less their estimated residual values, on a systematic basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Long leasehold premium	-	over the period of the lease
Freehold and long leasehold buildings	-	2% - 4% straight line
Plant and machinery	-	10%-20% straight line
Buses	-	10% straight line
Other vehicles	-	9¼% - 33% straight line

Investments

Investments held as fixed assets are stated at cost less any provision for a permanent diminution in value.

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

1 Accounting policies (*Continued*)

Finance and operating leases

Assets held under finance leases are treated as if they had been purchased outright and are capitalised at an amount equal to the fair value of the asset at the inception of the lease and depreciated on a systematic basis over the shorter of the lease term and its useful life. The capital element of the leasing commitments is shown as obligations under finance leases. Finance charges are allocated to accounting years so as to produce a constant periodic rate of charge on the remaining balance of the obligation. Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks

Stocks are stated at the lower of cost, including transport and handling costs, and net realisable value. In some cases the cost of components is the part exchange value net of allowances for returned, defective parts. Net realisable value is determined by a review of forecast future use. Provision is made where necessary for obsolete, slow moving and defective stocks.

Turnover

Turnover, which excludes value added tax, represents amounts receivable by the company for services provided in the ordinary course of business. Income from travel cards is apportioned and recognised in turnover according to the period for which the travel card is valid.

Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable items.

Deferred taxation

Deferred taxation is recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future. An asset is not recognised to the extent that the transfer of economic benefit in the future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

Accident claims

The company maintains insurance cover against third party liability claims for the amount on each claim that exceeds £35,000. Any claims below £35,000 or those disputed by the insurers are charged to the profit and loss account in the year in which they arise subject to an annual aggregated maximum charge.

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

1 Accounting policies (*Continued*)

Pension costs

Employees of the company are eligible to join one of the two defined benefit schemes to which the company contributes, depending upon date of appointment as follows

- (a) Employees at 20 October 1986 have been deemed to be employees of Reading Borough Council for pension purposes and are members of the local government superannuation scheme, to which the company contributes in accordance with the Local Government Superannuation Regulations
- (b) Employees who joined the company since 20 October 1986, together with any employees who are eligible for the local government scheme who wish to leave that scheme, are eligible to join the Reading Transport Staff Retirement Scheme

The funds are valued every three years by independent qualified actuaries, the rates of contribution payable being determined by the actuaries. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the year during which the company benefits from employees' services. Variations in pension cost are spread over the expected service lives of current employees.

The company has fully adopted accounting standard FRS 17 "Retirement Benefits" during the year. This impact of this standard has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate.

The difference between the fair value of the assets held in the company's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method, are recognised in the company's balance sheet as a pension scheme asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the company is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. The pension scheme balance is recognised net of any related deferred tax balance.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contributions by the company are charged to the profit and loss account or statement of total recognised gains and losses in accordance with FRS 17 "Retirement benefits".

The company provides no other post retirement benefits to its employees.

2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

3 Operating costs	2006	2005
	£'000	(restated) £'000
Raw materials and consumables	2,700	2,658
Other external charges	3,612	3,881
Staff costs (see note 4)	13,349	14,623
Depreciation	1,570	1,172
Amortisation	21	23
	<hr/>	<hr/>
	21,252	22,357
	<hr/>	<hr/>
 4 Employees	 2006	 2005
	£'000	(restated) £'000
Staff costs consist of		
Wages and salaries	12,840	12,659
Social security costs	1,093	1,070
Other pension costs	(584)	894
	<hr/>	<hr/>
	13,349	14,623
	<hr/>	<hr/>
	2006	2005
	£'000	(restated) £'000
Analysis of the amount that has been (credited)/charged to operating profit		
Current service cost	1,095	866
Impact of settlements and curtailments	(1,700)	-
Other costs	21	28
	<hr/>	<hr/>
Total operating (credit)/charge	(584)	894
	<hr/>	<hr/>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (Continued)

4 Employees (Continued)

The average number of employees, including directors, during the year was

	2006 Number	2005 Number
Traffic	399	409
Engineering	83	87
Administration	26	28
	<u>508</u>	<u>524</u>

5 Directors

Directors' emoluments consist of

	2006 £'000	2005 £'000
Fees and remuneration for management services	302	292
Emoluments of the highest paid director	<u>104</u>	<u>100</u>
Emoluments	104	100

There were 4 directors in the company's defined benefit pension schemes during the year (2005 - 4)

The highest paid director is a member of one of the defined benefit schemes, under which he has an accrued pension at the year end of £14,668 (2005 - £13,133) and an accrued lump sum of £44,003 (2005 - £39,400)

6 Operating profit

	2006 £'000	2005 £'000
This has been arrived at after (crediting)/charging		
Depreciation	1,570	1,172
Amortisation	21	23
Hire of plant and machinery - operating leases	307	439
Auditors' remuneration - audit	25	26
- services relating to taxation	19	18
- all other services	6	6
	<u>1,948</u>	<u>1,684</u>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

7 Interest payable and similar charges	2006 £'000	2005 £'000
Finance leases	251	220
Loan from parent	96	-
	347	220
8 Other finance costs	2006 £'000	2005 £'000
Expected return on pension scheme assets	(1,922)	(1,691)
Interest on pension scheme liabilities	2,151	2,111
	229	420
9 Taxation on profit on ordinary activities	2006 £'000	2005 (restated) £'000
<i>Current tax</i>		
UK corporation tax on profits of the year	-	-
Adjustment in respect of previous periods	-	-
	-	-
Total current tax	-	-
<i>Deferred tax</i>		
Origination and reversal of timing differences	413	184
Adjustment in respect of FRS 17 restatement	-	(100)
	413	84
Taxation on profit on ordinary activities	413	84

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 *(Continued)*

9 Taxation on profit on ordinary activities *(Continued)*

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The differences are explained below

	2006	2005 (restated)
	£'000	£'000
Profit/(loss) on ordinary activities before tax	2,132	229
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2005 - 19%)	405	43
Effect of		
Expenses not deductible for tax purposes	5	5
Capital allowances in excess of depreciation	(132)	(210)
Tax losses arising in the year	32	60
Movement in short-term timing differences	7	2
Net FRS 17 credit not taxable	(317)	-
Adjustment in respect of FRS 17 restatement	-	100
Current tax charge for year	-	-

Factors that may affect the future tax charge

The company has tax losses of approximately £353,000 (2005 - £314,000) to carry forward for offset against future taxable profits of the same trade

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

10 Intangible assets	Purchased goodwill £'000
<i>Cost</i>	
At 1 October 2005 and at 30 September 2006	436
<i>Amortisation</i>	
At 1 October 2005	147
Provision for the year	21
	<hr/>
At 30 September 2006	168
	<hr/>
<i>Net book value</i>	
At 30 September 2006	268
	<hr/>
At 1 October 2005	289
	<hr/>

During the period ended 31 March 1999 the trade and net assets of The Greater Reading Omnibus Company Limited were transferred to the company at their fair value. Included in the transfer was an amount attributed to goodwill amounting to £436,000, being the directors' best estimate of its fair value. The purchased goodwill is being amortised over the directors' best estimate of its useful economic life of 20 years.

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

11 Tangible assets

	Freehold land & buildings £'000	Long leasehold land & buildings £'000	Buses and coaches £'000	Plant and machinery £'000	Capital work-in progress £'000	Total £'000
<i>Cost</i>						
At 1 October 2005	435	5,431	17,976	3,347	18	27,207
Additions	-	-	3,872	243	10	4,125
Disposals	-	-	(2,820)	(31)	-	(2,851)
Transfers	-	-	-	-	-	-
At 30 September 2006	435	5,431	19,028	3,559	28	28,481
<i>Depreciation</i>						
At 1 October 2005	108	676	9,280	2,588	-	12,652
Provided for the year	10	86	1,206	268	-	1,570
Disposals	-	-	(2,700)	-	-	(2,700)
At 30 September 2006	118	762	7,786	2,856	-	11,522
<i>Net book value</i>						
At 30 September 2006	317	4,669	11,242	703	28	16,959
At 30 September 2005	327	4,755	8,696	759	18	14,555

Included within freehold land and buildings is freehold land at a cost of £195,000

The net book value of tangible fixed assets includes an amount of £6,044,667 (2005 - £3,482,339) in respect of assets held under finance leases. The related depreciation charge for the year was £613,565 (2005 - £434,533)

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

12 Fixed asset investments

	Group undertakings £'000
<i>Cost</i>	
At 1 October 2005 and 30 September 2006	208
<i>Provision for diminution in value</i>	
At 1 October 2005 and 30 September 2006	112
<i>Net book value</i>	
At 1 October 2005 and at 30 September 2006	96

On 1 June 1998 the company acquired 100% of the ordinary and preference share capital of The Greater Reading Omnibus Company Limited. The company is registered in Great Britain and was dormant throughout the year.

The Greater Reading Omnibus Company Limited has a 100% owned dormant subsidiary, Reading Mainline Limited.

On 31 January 1992 the company acquired the whole of the issued share capital of the following dormant companies from its shareholder for no consideration:

- Reading Rovers Limited
- Reading Minibuses Limited
- Reading Buses Limited
- Newbury Buses Limited
- Reading Transport Pension Trustees Limited

All of these companies are registered in Great Britain.

At 30 September 2006 these companies had combined net assets of £95,974.

13 Stocks

	2006 £'000	2005 £'000
Spare parts and consumables	313	250

There is no material difference between the replacement cost of stocks and the amounts stated above.

READING TRANSPORT LIMITEDNotes forming part of the financial statements for the year ended 30 September 2006 *(Continued)***14 Debtors**

	2006 £'000	2005 £'000
Trade debtors	601	626
Amounts due from parent undertaking	335	-
Other debtors	261	843
Corporation tax	-	-
Prepayments and accrued income	539	268
	<hr/>	<hr/>
	1,736	1,737
	<hr/>	<hr/>

All amounts shown under debtors fall due for payment within one year

15 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Trade creditors	511	488
Amounts owed to parent undertaking	210	2,306
Amounts owed to subsidiary undertakings	96	96
Other creditors	377	434
Taxation and social security	325	342
Obligations under finance leases	874	783
Accruals	815	931
	<hr/>	<hr/>
	3,208	5,380
	<hr/>	<hr/>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (Continued)

16 Creditors: amounts falling due after more than one year

	2006 £'000	2005 £'000
Obligations under finance leases	5,036	2,863
Amounts due to parent undertaking	1,788	-
Accruals and deferred income	4	2
Other creditors	48	-
	<u>6,876</u>	<u>2,865</u>
Obligations under finance leases are due as follows		
In one year or less	874	783
In more than one year but not more than two years	857	623
In more than two years but not more than five years	1,698	1,150
In more than five years	2,481	1,090
	<u>5,910</u>	<u>3,646</u>

The total value of finance leases repayable by instalments, any part of which falls due after more than five years, is £2,605,462 (2005 - £546,584). These liabilities are repayable in instalments at rates of interest ranging between 4.573% and 10.18% and are secured on the underlying assets.

17 Provision for liabilities and charges

	Deferred tax (restated) £'000	Pensions (restated) £'000	Uninsured claims £'000	Total (restated) £'000
At 1 October 2005 as originally reported	304	406	689	1,399
Prior year adjustment – defined benefit Pension scheme	77	(406)	-	(329)
	<u>381</u>	<u>-</u>	<u>689</u>	<u>1,070</u>
At 1 October 2005 as restated	381	-	689	1,070
Charged/(utilised) in year	96	-	(86)	10
	<u>477</u>	<u>-</u>	<u>603</u>	<u>1,080</u>
At 30 September 2006	477	-	603	1,080

The uninsured claims provision represents the estimated amount payable at the year end, by the company, in respect of outstanding insurance claims below the company's excess of £35,000 per claim. It is secured by a fixed charge amounting to £550,000 over the company's assets.

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

18 Deferred taxation

	2006 Provided in accounts £'000	2005 (restated) Provided in accounts £'000
Accelerated capital allowances	563	409
Other	(19)	(3)
	<hr/>	<hr/>
Unutilised tax losses	544 (67)	406 (25)
	<hr/>	<hr/>
	477	381
	<hr/>	<hr/>

19 Share capital

	Authorised		Allotted, called up and fully paid	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Ordinary shares of £1 each	3,974	3,974	3,974	3,974
	<hr/>	<hr/>	<hr/>	<hr/>

20 Reserves

	Profit and loss account £'000
At 1 October 2005 – as previously stated	6,148
Prior year adjustment – defined benefit pension scheme	(9,441)
	<hr/>
At 1 October 2005 – as restated	(3,293)
Profit for the year	1,719
Dividends	(150)
Actuarial gains and losses on defined benefit pension scheme	(2,633)
Deferred tax on pension scheme liability	500
	<hr/>
At 30 September 2006	(3,857)
	<hr/>

READING TRANSPORT LIMITEDNotes forming part of the financial statements for the year ended 30 September 2006 *(Continued)*

21 Reconciliation of movement in shareholder's funds	2006	2005
	£'000	(restated)
		£'000
Profit for the year	1,719	145
Dividends	(150)	(325)
Actuarial gains and losses on defined benefit pension scheme	(2,633)	772
Deferred tax on pension scheme liability	500	(147)
	<hr/>	<hr/>
	(564)	445
Opening shareholder's funds – as originally stated	10,122	9,876
Prior year adjustment – defined benefit pension scheme	(9,441)	(9,640)
	<hr/>	<hr/>
Opening shareholder's funds – as restated	681	236
	<hr/>	<hr/>
Closing shareholder's funds	117	681
	<hr/>	<hr/>
22 Capital commitments	2006	2005
	£'000	£'000
Contracted but not provided for	1,743	2,460
	<hr/>	<hr/>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

23 Commitments under operating leases

As at 30 September 2006, the company had annual commitments under non-cancellable operating leases, none of which relate to land and buildings, as set out below

	2006 £'000	2005 £'000
Operating leases which expire		
Within one year	3	63
Within two to five years	160	160
	<hr/>	<hr/>
	163	223
	<hr/>	<hr/>

24 Pension and similar obligations

The company operates two defined benefit pension schemes funded both by employer's and employees' contributions with assets held in separate, trustee administered funds. These schemes are referred to in note 1.

(a) *Reading Transport Staff Retirement Scheme*

This scheme was established under an irrevocable Deed of Trust by Reading Transport Limited for its employees. The scheme is managed by a corporate trustee accountable to the pension scheme members. The most recent valuation of this scheme was carried out at 1 July 2005.

(b) *Local Government Superannuation Fund*

This fund was established under an irrevocable Deed of Trust by Reading Transport Limited for its employees. The fund is managed by the Royal Borough of Windsor and Maidenhead who are accountable to the pension fund members. The most recent valuation of this scheme was carried out at 31 March 2004. This scheme is closed to new members. Under the projected unit method, the current service cost will increase as members approach retirement.

The company has adopted FRS 17 in full in these financial statements. The annually calculated deficit on funding of the schemes is shown in the financial statements. The impact on the financial statements of FRS 17 has been significant, as it has required the company to include the current deficit in the defined benefit schemes of £10,553,000 as a separate liability on its balance sheet. The balance sheet at 30 September 2005 has also been restated to reflect the previous year pension liability of £9,770,000. A pension provision of £329,000 net of deferred tax was also included within the financial statements in respect of the increased liability of additional benefits provided for certain past employees, which following the adoption of FRS 17 in full, is no longer required.

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

24 Pension and similar obligations (*Continued*)

The effect of this accounting policy change on the previous years financial statements has been to decrease operating profit by £106,000, decrease profit after tax by £426,000, and recognise actuarial gains (net of associated deferred tax) of £625,000 in the statement of total recognised gains and losses. Had the accounting policy not changed, operating profit for the current year would decrease by £1,896,000, profit after tax by £1,350,000 and actuarial losses relating to the year (net of associated deferred tax) of £2,133,000 would not have been recognised in the statement of total recognised gains and losses.

The full actuarial valuations of the defined benefit schemes, as detailed above, have been updated to 30 September 2006 by qualified independent actuaries on a FRS 17 basis. The major assumptions used by the actuaries were

	2006	2005	2004
Rate of increase in salaries	3.0 to 4.0%	3.9%	4.0%
Rate of increase for pensions in payment - pre 6 April 1997	3.0%	3.0%	3.0%
- post 5 April 1997	3.0% to 3.25%	2.9% to 3.0%	3.0%
- post 2006*	2.25%	N/A	N/A
Discount rate	5.0%	5.0%	5.5%
Inflation assumption	3.0%	2.9%	3.0%

*Reading Transport Staff Retirement Scheme only

The assets in the schemes and the expected long term rate of return at 30 September 2006 were

	2006 %	2006 £'000	2005 %	2005 £'000	2004 %	2004 £'000
Equities	6.5	22,342	6.6 to 7.3	20,614	7.1	17,493
Bonds	4.2 to 5.0	8,150	4.3 to 5.0	6,559	5.1	4,658
Other- Property	5.5	3,556	5.5 to 5.6	2,921	6.1	1,877
- Cash	4.75	1,562	4.5	1,535	4.8	2,014
		35,610		31,629		26,042

The following amounts at 30 September 2006 were measured in accordance with the requirements of FRS 17

Total market value of assets	35,610	31,629	26,042
Present value of schemes liabilities	(48,638)	(43,691)	(38,350)
Deficit in the schemes	(13,028)	(12,062)	(12,308)
Related deferred tax asset	2,475	2,292	2,339
Net pension deficit on a FRS 17 basis	(10,553)	(9,770)	(9,969)

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

24 Pension and similar obligations (*Continued*)

The actuarial gains and losses charged to the Statement of Total Recognised Gains and Losses "STRGL" are analysed as follows

	2006 £	2005 £
Actual return less expected return on pension schemes assets	1,558	3,709
Changes in assumptions underlying the present value of the schemes liabilities	(3,470)	(4,206)
Experience gains/(losses) arising on the schemes liabilities	(721)	1,269
	<hr/>	<hr/>
Actuarial gain/(loss) recognised in STRGL	(2,633)	772
	<hr/>	<hr/>

Movement in combined deficit during the year

	2006 £'000	2005 £'000	2004 £'000
<i>Movement in combined deficit during the year</i>			
Combined deficit in schemes at beginning of the year	(12,062)	(12,308)	(10,655)
Movement in year			
Current service cost	(1,095)	(866)	(886)
Contributions	1,291	760	752
Impact of settlements / curtailments	1,700	-	-
Other finance costs (see note 8)	(229)	(420)	(332)
Actuarial gain/(loss)	(2,633)	772	(1,187)
	<hr/>	<hr/>	<hr/>
Combined deficit in schemes at end of the year	(13,028)	(12,062)	(12,308)
	<hr/>	<hr/>	<hr/>

	2006 £'000	2005 £'000	2004 £'000
<i>History of experience gains and losses</i>			
Difference between the expected and actual return on both schemes assets			
- amount	779	1,855	611
- percentage of both schemes assets	4.4%	11.7%	4.7%
Experience losses on both schemes liabilities			
- amount	(361)	635	(891)
- percentage of the present value of both schemes liabilities	(1.5%)	2.9%	-4.6%
Total amount recognised in statement of total recognised gains and losses			
- amount	(1,316)	386	(594)
- percentage of the present value of both schemes liabilities	(5.4%)	1.8%	-3.1%

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (Continued)

25 Related party transactions and controlling party

The company is wholly owned by Reading Borough Council, which is the company's ultimate controlling party. The following related party transactions took place between the company and Reading Borough Council during the year:

- the company has received income of £2,683,665 (2005 - £3,220,415) as its share of a concessionary fares scheme,
- the company paid £26,942 (2005 - £25,596) for marketing services and £39,000 (2005 - £31,000) for commission
- the company purchased 9 buses for a consideration of £661,000

At the year end, the company owed £1,662,465 to Reading Borough Council (2005 - £2,305,652)

26 Reconciliation of operating profit to net cash inflow from operating activities

	2006	2005 (restated)
	£'000	£'000
Operating profit	2,394	584
Depreciation	1,570	1,172
Amortisation	21	23
(Credit)/contributions to defined benefit pension scheme	(1,896)	106
Increase in stocks	(63)	(5)
Decrease in debtors	1	455
(Decrease)/increase in creditors	(226)	309
(Decrease)/increase in provisions	(86)	120
	<hr/>	<hr/>
Net cash inflow from operating activities	1,715	2,764
	<hr/>	<hr/>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2006 (*Continued*)

27 Reconciliation of net cash inflow to movement in net debt

	2006 £'000	2005 £'000
(Decrease)/increase in cash in the year	(377)	1,008
Cash outflow from debt and lease financing	1,125	782
	<hr/>	<hr/>
Change in net debt resulting from cash flows	748	1,790
New finance leases and loans	(5,358)	(2,370)
	<hr/>	<hr/>
Movement in net debt in the year	(4,610)	(580)
Opening net debt	(807)	(227)
	<hr/>	<hr/>
Closing net debt	(5,417)	(807)
	<hr/>	<hr/>

28 Analysis of changes in net debt

	At 1 October 2005 £'000	Cash flow £'000	Other non-cash changes £'000	At 30 September 2006 £'000
Cash in hand and at bank	2,839	(377)	-	2,462
Debt due within one year	-	199	(380)	(181)
Debt due after one year	-	-	(1,788)	(1,788)
Finance leases	(3,646)	926	(3,190)	(5,910)
	<hr/>	<hr/>	<hr/>	<hr/>
	(3,646)	1,125	(5,358)	(7,879)
	<hr/>	<hr/>	<hr/>	<hr/>
	(807)	748	(5,358)	(5,417)
	<hr/>	<hr/>	<hr/>	<hr/>

29 Major non-cash transactions

During the year the company entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the lease of £3,190,200 (2005 - £2,370,000). In addition an amount of £2,167,990 owed to the company's parent, Reading Borough Council, was converted into a loan during the year.

30 Post balance sheet events

Colin Thompson stepped down as Managing Director from 31 December 2006 after 16 years of service with the company.