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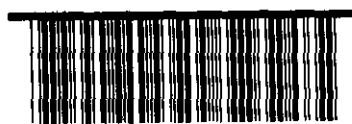
COMPANY

NUMBER: 2004963

Reading Transport Limited

Report and Financial Statements

Year Ended
30 September 2004



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BDO Stoy Hayward
Chartered Accountants

READING TRANSPORT LIMITED

Annual report and financial statements for the year ended 30 September 2004

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Directors

Councillor A W Page
Mr C Thompson
Mr J Carney
Mr S Simpson
Mr D M Downes
Councillor R J Green

Councillor A Jones
Councillor J E Orton
Councillor S Singleton-White
Councillor E A Winfield-Chislett

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 2004

The directors present their report together with the audited financial statements for the year ended 30 September 2004.

Results and dividends

The profit and loss account of the company is set out on page 7 and shows the result for the year.

A dividend amounting to £250,000 was paid to ordinary shareholders during the year (2003 - £Nil).

The directors do not recommend the payment of a final dividend (2003- £324,900)

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.

Review of business and future developments

The Company did not have a fares increase in 2003 and has seen a growth of 0.6% in customers. Simplification of fare structures continued with the introduction of only two single fares in the urban area from January 2004. Smartcards for season tickets and stored value were launched in June 2004 offering customers the advantage of cashless tickets. Goldline tours can also now be purchased over the internet.

Driver retention has been a priority for the Company's personnel policies and since February 2004 there was significant improvement in service reliability because there were consistently more staff who joined the organisation than left. The Company has an ambitious NVQ training programme with the intention to have all drivers attain that qualification by August 2005.

During the year the travel shop in Duke Street has been sublet to Oxfam.

The Company is adopting a policy of branding the eight main corridor routes in Reading. Route 17 was launched on Monday 28 October 2004 with 17 new vehicles. In March 2005 the second branded corridor was launched with a further 12 new vehicles and in June 2005 the third branded corridor was launched.

READING TRANSPORT LIMITED

Report of the directors for the year ended 30 September 2004 (Continued)

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.

Charitable and political contributions

Contributions made by the company during the year for charitable purposes amounted to £2,558 (2003 - £1,529). 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.

READING TRANSPORT LIMITED

Report of the directors for the year ended 30 September 2004 *(Continued)*

Directors

The directors of the company at 30 September 2004, all of whom, unless stated, served throughout the year then ended, were:

Councillor A W Page (Chair)
Mr C Thompson (Managing Director)
Mr J Carney (Financial Director and Company Secretary)
Mr S Simpson
Mr D M Downes
Councillor R J Green
Councillor A Jones
Councillor J E Orton
Councillor S M Singleton-White
Councillor E A Winfield-Chislett

Directors' interests in shares of the company

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

Directors' responsibilities

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.

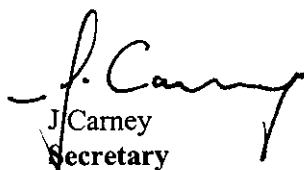
READING TRANSPORT LIMITED

Report of the directors for the year ended 30 September 2004 (Continued)

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


J Carney
Secretary

Date: 18 July 2005

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 2004 on pages 7 to 28 which have been prepared under the accounting policies set out on pages 10 to 12.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 United Kingdom Auditing Standards.

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the company 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.

This 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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.

READING TRANSPORT LIMITED

Report of the independent auditors (*Continued*)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2004 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
Reading

18 July 2005

READING TRANSPORT LIMITED

Profit and loss account for the year ended 30 September 2004

	Note	Year ended 30 September 2004 £'000	Period Ended 30 September 2003 £'000
Turnover	2	21,704	30,748
Operating costs	3	21,320	30,141
Operating profit	6	384	607
Interest receivable and similar income		68	87
Interest payable and similar charges	7	(140)	(241)
Profit on ordinary activities before taxation		312	453
Taxation on profit from ordinary activities	8	(55)	200
Profit on ordinary activities after taxation		367	253
Dividends - paid	9	250	-
- proposed		-	325
Retained profit/(loss) for the year		117	(72)

All amounts relate to continuing activities

All recognised gains and losses are included in the profit and loss account

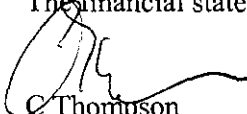
The notes on pages 10 to 28 form part of these financial statements

READING TRANSPORT LIMITED

Balance sheet at 30 September 2004

	Note	2004 £'000	2004 £'000	2003 £'000	2003 £'000
Fixed assets					
Intangible assets	10		312		336
Tangible assets	11		10,472		10,881
Investments	12		96		96
			10,880		11,313
Current assets					
Stocks	13	245		212	
Debtors	14	2,195		2,478	
Cash at bank and in hand		1,831		1,554	
		4,271		4,244	
Creditors: amounts falling due within one year	15	2,668		2,942	
Net current assets			1,603	1,302	
Total assets less current liabilities			12,483	12,615	
Creditors: amounts falling due after more than one year	16	1,512		1,944	
Provision for liabilities and charges	17	1,095		912	
		2,607		2,856	
Net assets			9,876	9,759	
Capital and reserves					
Called up share capital	19		3,974		3,974
Profit and loss account	20		5,902		5,785
Equity shareholders' funds	21		9,876	9,759	

The financial statements were approved by the Board on 18 July 2005


C Thompson
Director

The notes on pages 10 to 28 form part of these financial statements

READING TRANSPORT LIMITED

Cash flow statement for the year ended 30 September 2004

	Note	Year ended 30 September 2004 £'000	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000	Period ended 30 September 2003 £'000
Net cash inflow from operating activities	26		1,869		980
Returns on investments and servicing of finance					
Interest received		68		87	
Interest element of finance lease rental payments		(140)		(241)	
			(72)		(154)
Taxation					
UK corporation tax			-		-
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(511)		(1,829)	
Sale of tangible fixed assets		103		943	
			(408)		(886)
Equity Dividend paid			(575)		-
Cash inflow/(outflow) before use of liquid resources and financing			814		(60)
Financing					
Capital element of finance lease rental payments		(537)		(590)	
			(537)		(590)
Increase/(decrease) in cash	27,28		277		(650)

The notes on pages 10 to 28 form part of these financial statements

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. In preparing these financial statements the company has taken advantage of the transitional arrangements available under Financial Reporting Standard 17 "Retirement benefits". The transitional arrangements under FRS 17 has given rise to additional disclosures about the company's defined benefit schemes (see note 24). The following principal accounting policies have been applied:

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	-	9½% - 33% straight line

During the period ended 30 September 2003 the company changed its depreciation policy for buses from 25% reducing balance to 10% straight line. In the opinion of the directors this better allocates the cost of using the vehicles over their estimated useful economic life. The result of the above change in policy was to decrease the depreciation charge in 2003 by £923,000.

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 2004 (*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.

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 2004 (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 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.

3 Operating costs

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
Raw materials and consumables	2,457	3,759
Other external charges	3,530	4,755
Staff costs (see note 4)	14,308	20,113
Depreciation	1,001	1,481
Amortisation	24	33
	<hr/>	<hr/>
	21,320	30,141
	<hr/> <hr/>	<hr/> <hr/>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (Continued)

4 Employees

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
Staff costs consist of:		
Wages and salaries	12,377	17,768
Social security costs	1,046	1,392
Other pension costs	885	953
	<u>14,308</u>	<u>20,113</u>

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

	Year ended 30 September 2004 Number	Period ended 30 September 2003 Number
Traffic	416	415
Engineering	87	87
Administration	25	27
	<u>528</u>	<u>529</u>

5 Directors

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
Directors' emoluments consist of:		
Fees and remuneration for management services	270	362
Emoluments of the highest paid director:		
Emoluments	93	140

There were 4 directors in the company's defined benefit pension schemes during the year (2003 - 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 £11,180 (2003 - £12,375) and an accrued lump sum of £33,539 (2003 - £37,125).

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (*Continued*)

6 Operating profit

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
This has been arrived at after (crediting)/charging:		
Depreciation	1,001	1,481
Amortisation	25	33
Hire of plant and machinery - operating leases	285	379
Other operating lease rentals	3	3
Auditors' remuneration - audit	31	24
- other services	16	18
Profit on sale of fixed assets	(27)	(171)
	<u> </u>	<u> </u>

7 Interest payable and similar charges

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
Finance leases	140	241
	<u> </u>	<u> </u>

8 Taxation on profit on ordinary activities

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
<i>Current tax</i>		
UK corporation tax on profits of the year	13	(16)
Adjustment in respect of previous periods	28	-
<i>Deferred tax</i>		
Origination and reversal of timing differences	(96)	216
	<u> </u>	<u> </u>
Taxation on profit on ordinary activities	(55)	200
	<u> </u>	<u> </u>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (Continued)

8 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:

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
Profit on ordinary activities before tax	469	453
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2003 - 30%)	89	136
Effect of:		
Expenses not deductible for tax purposes	8	91
Capital allowances in excess of depreciation	-	(324)
Depreciation in excess of capital allowances	90	-
Utilisation of tax losses and other deductions	(154)	(16)
Tax losses arising in the year	-	100
Other items	(20)	(3)
Adjustment to tax charge in respect of previous periods	28	-
Current tax charge for year	41	(16)

9 Dividends

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
Ordinary - paid 6.3p (2003 - Nil p) per share	250	-
- proposed Nil p (2003 - 8.2p) per share	-	325
	250	325

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (*Continued*)

10 Intangible assets	Purchased goodwill £'000
<i>Cost</i>	
At 1 October 2003 and at 30 September 2004	436
<i>Amortisation</i>	
At 1 October 2003	100
Provision for the year	24
At 30 September 2004	124
<i>Net book value</i>	
At 30 September 2004	312
At 1 October 2003	336

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 2004 (*Continued*)

11 Tangible assets

	Long Freehold land & buildings £'000	leasehold land & buildings £'000	Buses and coaches £'000	Plant and machinery £'000	Capital work-in progress £'000	Total £'000
<i>Cost</i>						
At 1 April 2002	435	5,431	15,071	3,034	97	24,068
Additions	-	-	568	90	10	668
Disposals	-	-	(528)	(8)	-	(536)
Transfers	-	-	26	71	(97)	-
At 30 September 2004	435	5,431	15,137	3,187	10	24,200
<i>Depreciation</i>						
At 1 October 2003	90	490	10,540	2,067	-	13,187
Provided for the year	10	93	635	263	-	1,001
Disposals	-	-	(452)	(8)	-	(460)
At 30 September 2004	100	583	10,723	2,322	-	13,728
<i>Net book value</i>						
At 30 September 2004	335	4,848	4,414	865	10	10,472
At 30 September 2003	345	4,941	4,531	967	97	10,881

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

The net book value of buses and coaches includes an amount of £1,547,135 (2003 - £1,651,309) in respect of assets held under finance leases. The related depreciation charge for the year was £261,655 (2003 - £344,401).

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004(Continued)

12 Fixed asset investments

	Group undertakings £'000
<i>Cost</i>	
At 1 October 2003 and 30 September 2004	208
<i>Provision for diminution in value</i>	
At 1 October 2003 and 30 September 2004	112
<i>Net book value</i>	
At 30 September 2003 and at 30 September 2004	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 2004 these companies had combined net assets of £95,974

13 Stocks

	30 September 2004 £'000	30 September 2003 £'000
Spare parts and consumables	245	212

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

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (Continued)

14 Debtors

	30 September 2004 £'000	30 September 2003 £'000
Trade debtors	707	647
Amounts due from parent undertaking	454	980
Other debtors	578	257
Corporation tax	3	44
Prepayments and accrued income	453	550
	<hr/>	<hr/>
	2,195	2,478
	<hr/> <hr/>	<hr/> <hr/>

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

Other debtors includes a loan to Mr C Thompson, a director of the company, which at the end of the year amounted to £925 (2003 - £2,158). The loan attracts interest at 4.2% per annum with the maximum amount outstanding during the year of £2,158 (2003 - £4,166).

15 Creditors: amounts falling due within one year

	30 September 2004 £'000	30 September 2003 £'000
Trade creditors	458	407
Amounts owed to subsidiary undertakings	96	96
Other creditors	345	952
Taxation and social security	306	401
Obligations under finance leases	551	499
Accruals	912	587
	<hr/>	<hr/>
	2,668	2,942
	<hr/> <hr/>	<hr/> <hr/>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (Continued)

16 Creditors: amounts falling due after more than one year

	30 September 2004 £'000	30 September 2003 £'000
Obligations under finance leases	1,507	1,939
Accruals and deferred income	5	5
	<u>1,512</u>	<u>1,944</u>
Obligations under finance leases are due as follows:		
In one year or less	551	499
In more than one year but not more than two years	569	529
In more than two years but not more than five years	876	1,270
In more than five years	62	140
	<u>2,058</u>	<u>2,438</u>

The total value of finance leases repayable by instalments, any part of which falls due after more than five years, is £546,584 (2003 - £1,844,842). These liabilities are repayable in instalments at rates of interest ranging between 4.573% and 8.689% and are secured on the underlying assets.

17 Provision for liabilities and charges

	Deferred tax £'000	Pensions £'000	Uninsured claims £'000	Total £'000
At 1 October 2003	216	291	405	912
Profit and loss account	(96)	186	351	441
Utilised	-	(71)	(187)	(258)
	<u>120</u>	<u>406</u>	<u>569</u>	<u>1,095</u>

The pensions provision relates to an estimate of the increased liability of additional benefits provided for certain past employees. 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.

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (*Continued*)

18 Deferred taxation

	30 September 2004 Provided in accounts £'000	30 September 2003 Provided in accounts £'000
Accelerated capital allowances	196	668
Other	(76)	(104)
	<u>120</u>	<u>564</u>
Losses available	-	(348)
	<u>120</u>	<u>216</u>

19 Share capital

	Authorised		Allotted, called up and fully paid	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Ordinary shares of £1 each	3,974	3,974	3,974	3,974
	<u>3,974</u>	<u>3,974</u>	<u>3,974</u>	<u>3,974</u>

20 Reserves

	Profit and loss account £'000
At 1 October 2003	5,785
Retained profit for the year	117
	<u>5,902</u>
At 30 September 2004	<u>5,902</u>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (Continued)

21 Reconciliation of movement in shareholder's funds

	30 September 2004 £'000	30 September 2003 £'000
Profit for the year	367	253
Dividends	(250)	(325)
	<hr/>	<hr/>
Opening shareholder's funds	117 9,759	(72) 9,831
	<hr/>	<hr/>
Closing shareholder's funds	9,876	9,759
	<hr/> <hr/>	<hr/> <hr/>

22 Capital commitments

	30 September 2004 £'000	30 September 2003 £'000
Contracted but not provided for	3,817	2,823
	<hr/> <hr/>	<hr/> <hr/>

23 Commitments under operating leases

As at 30 September 2004, the company had annual commitments under non-cancellable operating leases, none of which relate to land and buildings, as set out below:

	30 September 2004 £'000	30 September 2003 £'000
Operating leases which expire:		
Within one year	41	70
Within two to five years	234	116
	<hr/>	<hr/>
	275	186
	<hr/> <hr/>	<hr/> <hr/>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (*Continued*)

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 pension cost relating to this scheme is assessed every three years in accordance with the advice of a qualified actuary using the projected unit method. The most recent valuation, at 1 July 2002 indicated that, on the basis of service to date and current salaries, the scheme's assets were sufficient to meet 79% only of its liabilities. It was assumed that the investment return would be 7% per annum pre retirement and 5.5% per annum post retirement, that salary increases would average 3.6% per annum, and that pensions would increase at the rate of 3% per annum for those awarded pre 6 April 1997 and 3% per annum for all other present and future pensions.

At 30 September 2004 the scheme which is contracted out of the state scheme, had assets of approximately £8.8m at market value. Of the total cost disclosed in note 4, a debit of £186,000 (2003 - £31,000) is attributable to an increase in the liability of additional benefits provided for certain past service employees.

Contributions to the scheme by employees have been increased to 6.6% of Pensionable Salary with effect from 1 January 2003. Company contributions have been increased to 10.2% of Pensionable Salary from the same date. The total cost of the defined benefit scheme was £647,643.

(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 pension cost relating to this fund is assessed every three years in accordance with the advice of a qualified actuary using the projected unit method. The most recent valuation of the Royal County of Berkshire 'Pension' Fund for which the results are known was carried out as at 31 March 2001. The assumptions used by the actuary were that the investment return would be 6% per annum, that salary increases would average 4.8% per annum and that pensions would increase at the rate of 2.8% per annum.

At 30 September 2004 the fund had total assets of approximately £1,006m at market value, of which £17.2m were attributable to Reading Transport Limited members.

Contributions to the fund by employees have been maintained in accordance with the recommendations of the actuaries in their previous valuation. The company is committed to pay 4.2% of total salaries for the next year. The total cost of the defined benefit scheme was £237,549.

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (Continued)

24 Pension and similar obligations (Continued)

Financial Reporting Standard 17 'Retirement benefits' (FRS 17)

The company is required to comply fully with FRS 17 in its financial statements for the year ended 30 September 2006. The impact on the financial statements of FRS 17 could be significant as it would require the company to include the current combined deficit in the two defined benefit schemes of £8,615,600 as a separate liability on its balance sheet. As stated in note 1 the company has taken advantage of the transitional arrangements allowed under FRS 17, which requires the following disclosures to be made in these financial statements in preparation for this change in accounting policy.

The full actuarial valuations of the defined benefit schemes, as detailed above, have been updated to 30 September 2004 by qualified independent actuaries on a FRS 17 basis. The major assumptions used by the actuaries were:

	30 September 2004	30 September 2003	31 March 2002
Rate of increase in salaries	4.0%	2.6%	2.8%
Rate of increase for pensions in payment - pre 6 April 1997	3.0%	3.0%	3.0%
- post 5 April 1997	3.0%	2.6%	2.8%
Discount rate	5.5%	5.3%	5.9%
Inflation assumption	3.0%	2.6%	2.8%

The assets in the schemes and the expected long term rate of return at 30 September 2004 were:

	30 September 2004 %	30 September 2004 £'000	30 September 2003 %	30 September 2003 £'000	31 March 2002 %	31 March 2002 £'000
Equities	7.1	17,493	7.0	15,713	7.5	19,734
Bonds	5.1	4,658	5.0	3,879	5.5	3,239
Other - Property	6.1	1,877	6.0	1,804	6.0	1,804
- Cash	4.8	2,014	3.5	1,857	4.0	1,556
Total market value of assets		26,042		23,253		26,333
Present value of schemes liabilities		(38,350)		(33,908)		(28,993)
Deficit in the schemes		(12,308)		(10,655)		(2,660)
Related deferred tax asset		3,692		3,197		532
Net pension liability on a FRS 17 basis		(8,616)		(7,458)		(2,128)

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (Continued)

24 Pension and similar obligations (Continued)

The effect on the profit and loss reserves if the pension schemes deficits were incorporated into the financial statements is as follows:

	30 September 2004 £'000	30 September 2003 £'000	31 March 2002 £'000
Net assets excluding pension deficits	9,876	9,759	9,831
Pension deficits - Reading Transport Staff Retirement Scheme	(5,210)	(4,572)	(1,944)
- Local Government Superannuation Fund	(3,406)	(2,886)	(186)
Net assets including pension deficits	<u>1,260</u>	<u>2,301</u>	<u>7,701</u>
Profit and loss reserve excluding pension deficits	5,902	5,785	5,857
Pension deficits - Reading Transport Staff Retirement Scheme	(5,210)	(4,572)	(1,944)
- Local Government Superannuation Fund	(3,406)	(2,886)	(186)
Profit and loss reserve including pension deficits	<u>(2,714)</u>	<u>(1,673)</u>	<u>(3,727)</u>

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
<i>Analysis of the amount that would have been charged to operating profit</i>		
Current service cost	886	1,135
Past service cost	-	6
Total operating charge	<u>886</u>	<u>1,141</u>

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
<i>Analysis of the amount that would have been credited to other finance income</i>		
Expected return on pension scheme assets	1,474	2,815
Interest on pension scheme liabilities	(1,806)	(2,615)
Net return	<u>(332)</u>	<u>200</u>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (*Continued*)

24 Pension and similar obligations (*Continued*)

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
<i>Analysis of the amount that would have been recognised in the statement of total recognised gains and losses (STRGL)</i>		
Actual return less expected return on pension schemes assets	1,222	(4,761)
Changes in assumptions underlying the present value of the schemes liabilities	(627)	(2,248)
Experience losses arising on the schemes liabilities	(1,782)	(952)
	<hr/>	<hr/>
Actuarial loss recognised in STRGL	(1,187)	(7,964)
	<hr/> <hr/>	<hr/> <hr/>

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
<i>Movement in combined deficit during the year</i>		
Combined deficit in schemes at beginning of the year	(10,655)	(2,660)
Movement in year:		
Current service cost	(886)	(1,135)
Past service cost	-	(6)
Contributions	751	910
Net return	(332)	200
Actuarial loss	(1,187)	(7,964)
	<hr/>	<hr/>
Combined deficit in schemes at end of the year	(12,309)	(10,655)
	<hr/> <hr/>	<hr/> <hr/>

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
<i>History of experience gains and losses</i>		
Difference between the expected and actual return on both schemes assets:		
- amount	611	(4,761)
- percentage of both schemes assets	4.7%	-20.2%
Experience losses on both schemes liabilities		
- amount	(891)	(952)
- percentage of the present value of both schemes liabilities	-4.6%	-2.8%
Total amount recognised in statement of total recognised gains and losses:		
- amount	(594)	(7,964)
- percentage of the present value of both schemes liabilities	-3.1%	-23.5%

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (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.

During the course of the year the company has traded with its parent. The company has received income of £3,080,586 (2003 - £2,786,000) as its share of a concessionary fares scheme. The company paid its parent £26,303 (2003 - £40,679) for marketing services and £35,000 (2003 - £61,000) for commission. Of these amounts £453,904 (2003 - £980,000) was still outstanding at the year end.

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

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
Operating profit	384	607
Depreciation	1,001	1,481
Amortisation	24	33
Profit on sale of tangible fixed assets	(27)	(171)
(Increase)/decrease in stocks	(33)	50
Decrease/(increase) in debtors	242	(1,017)
(Decrease)/increase in creditors	(1)	127
Increase/(decrease) in provisions	279	(130)
	<hr/>	<hr/>
Net cash inflow from operating activities	1,869	980
	<hr/> <hr/>	<hr/> <hr/>

27 Reconciliation of net cash inflow/(outflow) to movement in net debt

	Year ended 30 September 2004 £'000	Period ended 30 September 2003 £'000
Increase/(decrease) in cash in the year	277	(650)
Cash outflow from decrease in debt and lease financing	537	590
	<hr/>	<hr/>
Change in net debt resulting from cash flows	814	(60)
New finance leases	(157)	(171)
	<hr/>	<hr/>
Movement in net debt in the year	657	(231)
Opening net debt	(884)	(653)
	<hr/>	<hr/>
Closing net debt	(227)	(884)
	<hr/> <hr/>	<hr/> <hr/>

READING TRANSPORT LIMITED

Notes forming part of the financial statements for the year ended 30 September 2004 (Continued)

28 Analysis of changes in net debt

	At 1 October 2003 £'000	Cash flow £'000	Other non-cash changes £'000	At 30 September 2004 £'000
Cash in hand and at bank	1,554	277	-	1,831
Finance leases	(2,438)	537	(157)	(2,058)
	<u>(884)</u>	<u>814</u>	<u>(157)</u>	<u>(227)</u>

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 £157,000 (2003 - £171,000).