Southern Vectis plc

Directors' report and accounts

Registered number 2005917

30 April 2000

Contents

Directors' report

The directors present their annual report and the audited accounts for the year ended 30 April 2000.

Principal activities

Group subsidiaries, The Southern Vectis Omnibus Company Limited and Musterphantom Limited (trading as Solent Blue Line), are primarily concerned with the provision of public transport operations on the Isle of Wight and within Southampton and Southern Hampshire.

Vikoma International Limited is engaged in the design, manufacture and worldwide marketing of oil spill recovery devices, and industrial water and air pollution control equipment. Conder Products Limited and Conder Sewage Technology Limited manufacture and market pollution control products, principally surface water oil interceptors and packaged sewage treatment plants.

Southern Vectis Commercials Limited provides commercial engineering for all types of heavy goods vehicle, with service dealerships for major United Kingdom manufacturers, and has MOT and tachograph status.

During the year, Southern Vectis Coaches Limited ceased direct operation of coaches. However the marketing and sale of day tours and coach holidays within the United Kingdom and Europe have been maintained by The Southern Vectis Omnibus Company Limited.

The business of the Vikki Osborne package holiday operation was sold to the management of that business in October 1999.

A full account of the year's performance and future prospects is set out in the Chairman's Statement and the Divisional Operating Reviews, such statements being adopted by the Directors as part of their report.

The results of the Group for the year are set out on page 7 of the accounts.

Directors and their interests

The interests of the directors who held office at 30 April 2000 (all of which are beneficially held) in the share capital of the Company are set out below:

Ordinary shares of 10p each

	30 April 2000	30 April 1999 (or subsequent date of appointment)
SG Linn	**2,291,375**	2,291,375
IW Palmer	**1,026,552**	1,026,552
GO Tourlamain	**269,014**	269,014
MS Killingley (appointed Chairman 1 October 1999)	**137,500**	-
K Boyes	**9,500**	9,500
AP Holmes	**75**	75
J Barr (resigned 1 October 1999)	-	-
GA Humphries (appointed 1 June 1999)	-	-

Mr AP Holmes has a non-beneficial interest in 2,148,141 shares *(1999: 2,148,141)*.

There have been no changes in the above holdings between 30 April 2000 and 20 July 2000.

None of the directors who held office at 30 April 2000 held rights to subscribe for shares in any group company during the current or preceding financial year.

Directors' report *(continued)*

Substantial holdings

The following members had a holding of 3% or more of the issued share capital as at 20 July 2000:

GVR Batchelor	4,648,141
SG Linn	2,291,375
The Bank of New York (Nominees) Ltd (formerly RBSTB Nominees Limited)	1,467,460
IW Palmer	1,026,552
AR Peeling	1,018,333
JB Peeling	981,280

Corporate governance

The Board comprises five executive and two non-executive directors. There are twelve regular Board meetings each year and other meetings are held as required to direct overall Group strategy and operations. The Board approves annual budgets and capital expenditure programmes and reviews progress towards their attainment. The Board has reserved to itself certain matters but otherwise has delegated responsibilities to standing committees which it has established as described below.

Remuneration Committee

The Remuneration Committee comprises the non-executive directors, with the Chairman in attendance and determines, on behalf of the Board, the terms and conditions of employment of the executive directors.

Audit Committee

An Audit Committee comprising the non-executive directors, with the Chairman and Group Finance Director in attendance, meets with the auditors at least twice a year to review the interim report and annual accounts and to keep under review internal control systems.

General information

Going concern

The Board continues to adopt the going concern basis in preparing the accounts as, after making appropriate enquiries, it considers that the Group has adequate resources to continue in operational existence for the foreseeable future.

Health and safety

The Company and its subsidiaries have taken note of their obligations under the Health & Safety at Work Act 1974, policy statements have been issued and selected personnel are required to attend courses to aid in its implementation. A Safety Committee has been established to ensure employees are fully aware of their responsibilities.

Directors' report *(continued)*

General information *(continued)*

Staff relations

All employees receive equal opportunities for career advancement, including training and other forms of education as appropriate. A person's qualifications and suitability for a position within the Group are the only criteria for employment, selection and promotion.

Full and fair consideration is given to employment applications from disabled persons having regard to their particular aptitudes and abilities. So far as is practicable, arrangements are made to continue the employment of an individual who becomes disabled. Disabled employees are given fair consideration for training, career development and promotion.

The directors recognise the importance of good communications and relations with employees. The management of each subsidiary is responsible for the development of employee participation practices appropriate to its own requirements.

Policy and practice on payment of creditors

Southern Vectis plc has no suppliers as it only acts as a holding company. The Group does not follow a formal code or standard on the payment of suppliers, however it is the Group's policy to abide by the terms agreed with suppliers wherever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions.

Year 2000

During the year, the Group completed its efforts to minimise the possible effects of the Year 2000 date change. As at today's date, no significant problems have been experienced in connection with the date change.

Treasury

The Group takes the whole issue of treasury management seriously and makes full use of the bank's on-line systems.

The Group's financial instruments comprise borrowings, some cash and liquid resources, and various items, such as trade debtors, trade creditors and accruals that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Company's subsidiary, Vikoma International Limited, enters into some derivatives transactions (forward foreign currency contracts). The purpose of such transactions is to manage the currency risks arising from that company's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews policies for managing each of these risks and they are summarised below. These policies have remained unchanged since 30 April 1999.

Interest rate risk

The Group finances its operations through a mixture of retained profits, bank borrowing and leasing. The Group negotiates borrowings by reviewing the fixed and variable interest rates available and selects the most appropriate rate.

Liquidity risk

The majority of the Group's leasing contracts mature within five years. Short-term flexibility is achieved by overdraft facilities.

Directors' report *(continued)*

Foreign currency risk

The Company has one significant subsidiary that trades in foreign currencies, particularly the US Dollar, and as such takes out forward contracts for major transactions. For smaller amounts, currency accounts are maintained and converted into Sterling from time to time. The Group had no forward contracts as at 30 April 2000.

The Group's policy is to reduce currency exposure where appropriate through forward currency contracts.

The Group has no other financial assets other than short-term debtors and cash.

Details of derivatives and other financial instruments are shown in note 23 to the accounts.

Donations

The Group has made charitable donations during the year of £3,290 *(1999:£2,478)*. No political donations were made *(1999: £Nil)*.

Dividends

The directors recommend the payment of a final dividend of 2.3p *(1999: 2.3p)* per ordinary share, amounting to £454,000 *(1999: £454,000)*.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

K Boyes
Secretary

Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those accounts, 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 departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for maintaining 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 accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

KPMG Audit Plc

Dukes Keep
Marsh Lane
Southampton
Hampshire SO14 3EX

Report of the auditors to the members of Southern Vectis plc

We have audited the accounts on pages 7 to 34.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Group 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 Group are not disclosed.

We read the other information accompanying the accounts and consider whether it is consistent with those accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 30 April 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

20 July 2000

Consolidated profit and loss account

for the year ended 30 April 2000

	Note	2000 £000	Acquisitions 2000 £000	Total 2000 £000	Total 1999 £000
Turnover	*2,3*	**21,332**	**4,805**	**26,137**	23,027
Other operating income	*2*	**199**	**-**	**199**	480
		21,531	**4,805**	**26,336**	23,507
Operating costs	*4*	**(20,688)**	**(4,566)**	**(25,254)**	(21,724)
Operating profit	*4*	**843**	**239**	**1,082**	1,783
Interest receivable	*7*			**43**	198
Interest payable and similar charges	*8*			**(548)**	(531)
Profit on ordinary activities before taxation				**577**	1,450
Tax on profit on ordinary activities	*9*			**(225)**	(469)
Profit on ordinary activities after taxation				**352**	981
Equity minority interests	*10*			**-**	*(103)*
Profit for the financial year	*11*			**352**	878
Dividends	*12*			**(454)**	(454)
Retained (loss)/profit for the financial year				**(102)**	424
Basic earnings per share	*13*			**1.8p**	4.4p
Diluted earnings per share	*13*			**1.8p**	4.4p
Headline earnings per share	*13*			**1.8p**	5.0p

The notes on pages 11 to 34 form part of these accounts.

All amounts relate to continuing activities. In both the current and previous financial years, the Group had no recognised gains and losses other than those passing through the profit and loss account.

No note of historical cost profits required by Financial Reporting Standard 3 has been presented since reported profits do not materially differ from historical cost profits.

Consolidated balance sheet
at 30 April 2000

	Note	2000 £000	2000 £000	1999 £000	1999 £000
Fixed assets					
Intangible assets	*14*		**2,523**		266
Tangible assets	*15*		**11,102**		10,560
			13,625		10,826
Current assets					
Stocks	*17*	**1,446**		738	
Debtors	*18*	**5,146**		3,084	
Cash at bank and in hand		**340**		3,395	
		6,932		7,217	
Creditors: amounts falling due within one year	*19*	**(10,182)**		(8,085)	
Net current liabilities			**(3,250)**		(868)
Total assets less current liabilities			**10,375**		9,958
Creditors: amounts falling due after more than one year	*20*		**(3,254)**		(2,640)
Provisions for liabilities and charges	*21*		**(425)**		(520)
Net assets			**6,696**		6,798
Capital and reserves					
Called up share capital	*22*		**1,975**		1,975
Revaluation reserve	*24*		**251**		251
Merger relief reserve	*24*		**375**		375
Capital reserve	*24*		**321**		321
Profit and loss account	*24*		**3,774**		3,876
Equity shareholders' funds			**6,696**		6,798

The notes on pages 11 to 34 form part of these accounts.

These accounts were approved by the board of directors on 20 July 2000 and were signed on its behalf by:

MS Killingley
Director

SG Linn
Director

Company balance sheet

at 30 April 2000

	Note	2000		1999	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	*15*		**3,347**		3,378
Investments	*16*		**5,185**		5,216
			8,532		8,594
Current assets					
Debtors	*18*	**2,025**		2,014	
Creditors: amounts falling due within one year	*19*	**(6,336)**		(6,351)	
Net current liabilities			**(4,311)**		(4,337)
Total assets less current liabilities			**4,221**		4,257
Provisions for liabilities and charges	*21*		**(91)**		(93)
Net assets			**4,130**		4,164
Capital and reserves					
Called up share capital	*22*		**1,975**		1,975
Revaluation reserve	*24*		**833**		833
Merger relief reserve	*24*		**375**		375
Profit and loss account	*24*		**947**		981
Equity shareholders' funds			**4,130**		4,164

The notes on pages 11 to 34 form part of these accounts.

These accounts were approved by the board of directors on 20 July 2000 and were signed on its behalf by:

M. S. Killingley

MS Killingley
Director

SG Linn
Director

Consolidated cash flow statement

for year to 30 April 2000

	Note	**2000** **£000**	1999 £000
Cash inflow from operating activities	*27*	**1,487**	4,052
Returns on investments and servicing of finance	*30*	**(505)**	(333)
Taxation		**(472)**	(745)
Capital expenditure and financial investment	*30*	**(648)**	(795)
Acquisitions and disposals	*30*	**(2,633)**	(250)
Equity dividends paid		**(454)**	(454)
Cash (outflow)/inflow before management of liquid resources and financing		**(3,225)**	1,475
Management of liquid resources	*30*	**1,000**	(1,000)
Financing - decrease in debt	*30*	**(234)**	(1,129)
Decrease in cash in the year	*28*	**(2,459)**	(654)

Notes

(forming part of the accounts)

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's accounts.

(a) *Basis of accounting*

The accounts have been prepared under the historical cost convention, modified to include the revaluation of freehold land and buildings and investments. They have been prepared in accordance with applicable accounting standards.

(b) *Consolidation*

The consolidated accounts incorporate the audited accounts of Southern Vectis plc and all of its subsidiary undertakings made up to 30 April 2000.

The trading results of subsidiary undertakings acquired or sold in the year are included in the consolidated profit and loss account from or until the effective date of acquisition or disposal respectively. Adjustments are made to bring the accounting policies of businesses acquired into line with those of the Group.

(c) *Goodwill and negative goodwill*

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired), both positive and negative, arising in respect of acquisitions before 1 May 1998, when FRS 10 *Goodwill and intangible assets* was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill arising in respect of acquisitions since 1 May 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. Negative goodwill arising in respect of acquisitions since 1 May 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

On the subsequent disposal or termination of a business acquired since 1 May 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

In the Company's balance sheet, investments in subsidiary undertakings are stated at cost or valuation less any provision for diminution in value.

(d) *Leases*

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes *(continued)*

1 Principal accounting policies *(continued)*

(e) *Depreciation and amortisation*

Depreciation is provided so as to write off the cost or valuation less the estimated residual value of tangible and intangible fixed assets over their estimated useful economic lives on a straight line basis, as follows:

Freehold buildings	10 - 40 years
Leasehold buildings	40 years or length of lease or if shorter (10 years for Vikoma International Limited)
Public service vehicles	6 - 16 years
Plant and equipment	3 - 10 years
Patents and licences	10 years
Goodwill	20 years or estimated useful economic life if less
Other intangible assets	10 years

No depreciation is provided on freehold land.

(f) *Stocks*

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables, the first in first out method is used. For work in progress, cost is taken as production cost including an appropriate proportion of attributable overheads.

(g) *Deferred taxation*

Deferred taxation is provided using the liability method in respect of the tax effect of all material timing differences between the treatment of certain items for tax and accounting purposes only to the extent that it is probable that liabilities will crystallise in the foreseeable future.

(h) *Pension scheme*

Employees of the transport companies participate in the Southern Vectis Group defined benefit pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group.

Employees of the Environmental Division participate in a money purchase scheme; the assets of this scheme are held separately from those of the Group in an independently administered fund. The amount charged against profits represents contributions payable to the scheme in respect of the accounting period.

(i) *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Notes *(continued)*

2 Turnover

Turnover comprises gross revenue for road passenger transport and other services and net commissions earned on holidays sold, as well as revenue from the sale of environmental products, all net of VAT. Other operating income comprises rent receivable.

3 Segmental information

	2000			1999		
	Turnover	**Profit before interest and tax**	**Net assets**	Turnover	Profit before interest and tax	Net assets
	£000	**£000**	**£000**	£000	£000	£000
Transport	**15,048**	**1,309**	**8,656**	14,830	1,164	8,454
Environmental	**11,089**	**(227)**	**5,625**	8,197	619	4,748
	26,137	**1,082**	**14,281**	23,027	1,783	13,202

Net assets exclude interest-bearing liabilities comprising loans, overdrafts and finance lease creditors. At 30 April 2000 these totalled £7,585,000 *(1999:£6,404,000)*.

All turnover arose in the United Kingdom and is analysed by destination as follows:

	2000	1999
	£000	£000
United Kingdom	**20,531**	16,398
Continental Europe	**678**	676
Rest of World	**4,928**	5,953
	26,137	23,027

Notes *(continued)*

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2000 £000	1999 £000
Depreciation:		
Owned assets	**1,005**	749
Leased assets	**465**	427
Amortisation of intangible assets	**138**	48
Auditors' remuneration - audit services:		
Group	**63**	43
Company	**10**	6
Other fees paid to the auditors and their associates:		
Group	**30**	11
Company	**5**	3
Operating lease rentals	**252**	82
Exceptional items:		
Write down of transport information system	**212**	-
Restructuring costs	**160**	-

The write down of the transport information system of £212,000 represents the write down to nil net book value of the development costs of the Xephos public transport information project. The restructuring costs of £160,000 represent redundancy costs and payment in lieu of notice in respect of the restructuring of Vikoma International Limited.

	£000	Acquisitions 2000 £000	Total 2000 £000	Total 1999 £000
Operating costs				
Change in stocks of finished goods and work in progress	**(2)**	**(20)**	**(22)**	137
Raw materials and consumables	**2,857**	**2,129**	**4,986**	3,539
Staff costs	**9,749**	**1,294**	**11,043**	9,899
Depreciation and amortisation	**1,452**	**156**	**1,608**	1,224
Other operating charges	**6,632**	**1,007**	**7,639**	6,925
	20,688	**4,566**	**25,254**	21,724

5 Staff costs

Staff costs (including directors) comprise :

	2000 £000	1999 £000
Wages and salaries	**9,714**	8,720
Social security costs	**840**	704
Other pension costs (see note 34)	**489**	475
	11,043	9,899

Notes *(continued)*

5 Staff costs *(continued)*

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2000	1999
Environmental production	**31**	42
Drivers and conductors	**251**	251
Maintenance and engineering	**79**	84
Sales	**33**	16
Other	**201**	162
	595	555

6 Remuneration of directors

	2000	1999
	£000	£000
Directors' emoluments	**385**	315
Compensation for loss of office	**-**	30
Company contributions to money purchase pension schemes	**17**	21

The emoluments of the highest paid director were £110,000. The highest paid director is a member of the Southern Vectis Group pension scheme which is a defined benefit scheme. At 30 April 2000 the amount of his accrued pension was £30,000 per annum.

In the prior year, the emoluments of the highest paid director were £113,000 and Company pension contributions of £21,000 were made to a money purchase scheme on his behalf.

	Number of directors	
	2000	1999
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**1**	1
Defined benefit schemes	**3**	3

7 Interest receivable

	2000	1999
	£000	£000
On bank deposits	**43**	198

Notes *(continued)*

8 Interest payable and similar charges

	2000 £000	1999 £000
Interest on bank loans and overdrafts	**353**	338
Charges arising on finance leases	**195**	193
	548	531

9 Tax on profit on ordinary activities

	2000 £000	1999 £000
The taxation charge comprises:		
Corporation tax at 30% *(1999: 30.9%)*	**323**	456
Deferred tax	**(78)**	82
Adjustments in respect of prior years:		
Corporation tax	**(3)**	(61)
Deferred tax	**(17)**	(8)
	225	469

10 Minority interests

The Group has accepted full responsibility for the net liabilities of its now dormant subsidiary undertaking Air Vehicles Limited. The charge in the prior year relates to the net liabilities of the 25% previously held by minority interests which is now borne by the Group.

11 Profit for the financial year

The Company has taken advantage of the exemption permitted by Section 230 of the Companies Act 1985 not to present its own profit and loss account. The profit for the financial year of the Company is £420,000 *(1999: £546,000)*.

12 Dividends

	2000 £000	1999 £000
Proposed ordinary dividend of 2.3p per ordinary share *(1999:2.3p)*	**454**	454

Notes *(continued)*

13 Earnings per ordinary share

Basic earnings per share for the year ended 30 April 2000 has been calculated based upon the weighted average number of ordinary shares in issue for the year of 19,754,309 *(1999: 19,754,309)* and profit after taxation of £352,000 *(1999: £878,000)*.

Diluted earnings per share has been calculated based on a weighted average of 19,754,309 shares *(1999: 19,755,819 shares)*. The diluted weighted average number of shares under option for the year was Nil *(1999: 1,510 shares)*.

In addition to basic and diluted earnings per share, the Group presents headline earnings per share. For the year ended 30 April 2000 this has been calculated in the same way as basic earnings per share. In the prior year this was calculated based upon the weighted average number of ordinary shares in issue for the year of 19,754,309 and profit before non-recurring items of £981,000. These non-recurring items consisted of a non-recurring minority interests charge of £103,000.

14 Intangible fixed assets

	Patents	Goodwill	Other intangible assets	Total
	£000	£000	£000	£000
Cost				
At 1 May 1999	454	-	46	**500**
Additions (note 26)	-	2,395	-	**2,395**
At 30 April 2000	454	2,395	46	**2,895**
Amortisation				
At 1 May 1999	232	-	2	**234**
Charged in the year	45	88	5	**138**
At 30 April 2000	277	88	7	**372**
Net book value				
At 30 April 2000	**177**	**2,307**	**39**	**2,523**
At 30 April 1999	222	-	44	**266**

Other intangible assets relate to the purchase by Vikoma International Ltd of intellectual property from an air pollution business.

Notes *(continued)*

15 Tangible fixed assets

	Land and buildings		Public	Plant and	Total
	Freehold	Short leasehold	service vehicles	equipment	
Group	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or valuation					
At 1 May 1999	3,648	343	10,735	3,826	**18,552**
Additions	23	201	1,119	718	**2,061**
Disposals	(20)	-	(559)	(255)	**(834)**
At 30 April 2000	3,651	544	11,295	4,289	**19,779**
Depreciation					
At 1 May 1999	265	107	5,310	2,310	**7,992**
Charged in the year	31	48	731	660	**1,470**
Disposals	(5)	-	(557)	(223)	**(785)**
At 30 April 2000	291	155	5,484	2,747	**8,677**
Net book value					
At 30 April 2000	**3,360**	**389**	**5,811**	**1,542**	**11,102**
At 30 April 1999	3,383	236	5,425	1,516	10,560

Notes *(continued)*

15 **Tangible fixed assets** *(continued)*

	Land and buildings		Plant and	Total
	Freehold	Short leasehold	equipment	
Company	**£000**	**£000**	**£000**	**£000**
Cost or valuation				
At 1 May 1999	3,525	145	11	**3,681**
Additions	23	-	-	**23**
Disposals	(20)	-	-	**(20)**
At 30 April 2000	3,528	145	11	**3,684**
Depreciation				
At 1 May 1999	250	42	11	**303**
Charged in the year	24	15	-	**39**
Disposals	(5)	-	-	**(5)**
At 30 April 2000	269	57	11	**337**
Net book value				
At 30 April 2000	**3,259**	**88**	-	**3,347**
At 1 May 1999	3,275	103	-	3,378

The gross book value of freehold land and buildings of the Group includes £1,180,000 *(1999:£1,176,000)* of depreciable assets. The gross book value of freehold land and buildings of the Company includes £1,108,000 *(1999:£1,103,000)* of depreciable assets. The majority of the land and buildings of the Group and Company were revalued at 30 April 1988 on an existing use basis and the results of this valuation are reflected in these accounts.

All freehold land and buildings, except for those of Vikoma International Limited, were valued at 23 January 1998. The land and buildings were valued by Prince Smart, Chartered Surveyors, on an existing use basis. The results of this valuation have not been reflected in these accounts as they were not significantly different to net book value.

Other tangible fixed assets are included at cost.

Particulars relating to revalued assets are given below:

Group and Company	**2000**	1999
	£000	£000
Land and buildings		
At 1988 open market value	**2,623**	2,623
Aggregate depreciation thereon	**(205)**	(186)
Net book value	**2,418**	2,437
Historical cost of revalued assets	**1,068**	1,068
Aggregate depreciation based on historical cost	**(377)**	(345)
	691	723

Notes *(continued)*

15 Tangible fixed assets *(continued)*

The net book value of the Group's tangible assets includes an amount of £4,225,000 *(1999:£3,683,000)* in respect of assets held under finance leases. The amount of depreciation allocated during the year for such assets amounts to £465,000 *(1999:£427,000).*

16 Fixed asset investments

Company

Fixed asset investments relate to shares in Group undertakings stated at cost or valuation. The Company's subsidiaries are set out in note 36.

	Shares in group undertakings £000
Cost or valuation	
At beginning and end of year	5,216
Provision	
At 1 May 1999	-
Provided during the year	31
At 30 April 2000	31
Net book value	
At 30 April 2000	**5,185**
At 1 May 1999	5,216

The Company's investment in a subsidiary company was revalued at 30 April 1987 by the directors at £1,945,000 being equivalent to the net asset value of that subsidiary at that time. The historical cost of the investment is £1,088,000.

17 Stocks

Group	**2000 £000**	1999 £000
Raw materials and consumables	**1,007**	426
Work in progress	**150**	87
Finished goods	**289**	225
	1,446	738

Notes *(continued)*

18 Debtors

Group	2000 £000	1999 £000
Trade debtors	**4,272**	2,305
Other debtors	**373**	426
Prepayments and accrued income	**501**	353
	5,146	3,084

Of the above trade debtors £Nil *(1999: £93,000)* is due after more than one year.

Company	2000 £000	1999 £000
Amounts owed by group undertakings	**2,025**	1,985
Other debtors	-	29
	2,025	2,014

Of the above amounts owed by group undertakings £32,000 *(1999:£32,000)* is due after more than one year.

19 Creditors: amounts falling due within one year

Group	2000 £000	2000 £000	1999 £000	1999 £000
Bank loans and overdrafts		**3,612**		2,958
Obligations under finance leases		**719**		806
Trade creditors		**2,212**		1,309
Other creditors including taxation and social security:				
Corporation tax	**188**		340	
Other taxation and social security	**291**		212	
Other creditors	**1,614**		1,167	
		2,093		1,719
Accruals and deferred income		**1,092**		839
Proposed ordinary dividend		**454**		454
		10,182		8,085

Notes *(continued)*

19 Creditors: amounts falling due within one year *(continued)*

Company	2000 £000	1999 £000
Bank overdrafts	**1,636**	1,518
Amounts owed to group undertakings	**4,226**	4,375
Other creditors including taxation and social security:		
Other creditors	**20**	4
Proposed ordinary dividend	**454**	454
	6,336	6,351

The bank overdrafts of the Company and its subsidiaries are secured by a mortgage debenture over the assets of these companies.

20 Creditors: amounts falling due after more than one year

Group	2000 £000	1999 £000
Bank loans	**1,173**	720
Obligations under finance leases	**2,081**	1,920
	3,254	2,640

The maturity of obligations under finance leases is as follows:	2000 £000	1999 £000
Within one year	**719**	806
In the second to fifth years	**1,783**	1,677
Over five years	**298**	243
	2,800	2,726

Analysis of bank loans:	2000 £000	1999 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	**610**	360
Between one and two years	**610**	360
Between two and five years	**563**	360
	1,783	1,080

Bank loans are secured by a mortgage over a freehold property of Vikoma International Limited, as well as by a mortgage debenture over the assets of Vikoma International Limited.

Notes *(continued)*

21 Provisions for liabilities and charges

Deferred taxation	**Group** £000	**Company** £000
At 1 May 1999	520	93
Transferred to profit and loss account	(95)	(2)
At 30 April 2000	**425**	**91**

The amounts provided for deferred taxation, and the amounts not provided, are set out below:

	2000		1999	
Group	**Provided £000**	**Unprovided £000**	Provided £000	Unprovided £000
Excess of capital allowances over depreciation	**442**	**25**	528	50
Other timing differences	**(17)**	**-**	(8)	-
	425	**25**	520	50

	2000		1999	
Company	**Provided £000**	**Unprovided £000**	Provided £000	Unprovided £000
Excess of capital allowances over depreciation	**91**	**-**	93	-

22 Share capital

	2000 £000	1999 £000
***Authorised*:**		
30,000,000 Ordinary shares of 10p each	**3,000**	3,000
Allotted, called up and fully paid		
19,754,309 Ordinary shares of 10p each	**1,975**	1,975

At 30 April 2000 there were no options for ordinary shares of 10p each in issue *(1999: 264,706 at 68p expiring on 30 November 1999).*

Notes *(continued)*

23 Derivatives and other financial instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments can be found in the directors' report on page 3. Short-term debtors and creditors that meet the definition of a financial asset or liability under Financial Reporting Standard 13 have been excluded from the disclosures as permitted by the Standard.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group as at 30 April 2000 was as follows:

Floating rate financial assets comprise cash as follows:

	2000 £000	1999 £000
Sterling	**251**	3,278
US Dollar	**89**	113
Other	-	4
	340	3,395

The weighted average interest rate of cash at the year end was 4.4% *(1999: 4.9%)* and the deposit profile at the year end was as follows:

	2000 £000	1999 £000
1 day	**340**	2,395
1 month	-	1,000
	340	3,395

Interest rate risk profile of financial liabilities

All financial liabilities of the Group are denominated in Sterling. The interest rate profile at 30 April 2000 was:

	2000 £000	1999 £000
Fixed rate financial liabilities	**3,520**	3,806
Floating rate financial liabilities	**4,065**	2,598
	7,585	6,404

Fixed rate financial liabilities

Fixed rate financial liabilities comprise finance leases and bank loans. All are denominated in Sterling.

The weighted average fixed interest rate of these finance leases at the year end was 6.3% *(1999: 6.6%)*. The weighted average period for which interest rates are fixed is 4.8 years *(1999: 4.8 years)*.

The fixed rate bank loan carries interest at 9.875% and is repayable in instalments over seven years ending on 29 April 2002. The balance of the loan at 30 April 2000 was £720,000 *(1999: £1,080,000)*.

Notes *(continued)*

23 Derivatives and other financial instruments *(continued)*

Floating rate financial liabilities

Floating rate financial liabilities consist of bank loans and overdrafts. Bank overdrafts carry interest at between 1.3% and 1.5% over bank base rate and are repayable on demand.

The floating rate bank loan carries interest at 1.5% over bank base rate and is repayable in instalments over five years ending on 31 May 2004. The balance of the loan at 30 April 2000 was £1,063,000 *(1999: £Nil).*

Maturity of financial liabilities

The maturity profile of the Group's fixed and floating rate financial liabilities at 30 April 2000 was as follows:

	2000	1999
	£000	£000
In one year or less, or on demand	**4,331**	3,764
In more than one year but not more than two years	**1,223**	941
In more than two years but not more than five years	**1,733**	1,456
In more than five years	**298**	243
	7,585	6,404

Borrowing facilities

The Group has various undrawn committed borrowing facilities. The facilities available at 30 April 2000 were as follows:

	2000	1999
	£000	£000
Expiring in one year or less	**498**	1,000

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Group's fixed rate financial assets and liabilities at 30 April 2000.

	2000		1999	
	Book value	**Fair value**	Book value	Fair value
	£000	**£000**	£000	£000
Bank loan	**720**	**737**	1,080	1,140

There are no material differences in the remaining financial liabilities and financial assets.

Hedging

Vikoma International Limited enters into financial exchange contracts to cover its foreign exchange risk. However, at the year end there were no outstanding contracts *(1999: Nil).*

Notes *(continued)*

24 Statement of movements on reserves

Group	Revaluation reserve £000	Merger relief reserve £000	Capital reserve £000	Profit and loss account £000
Balance at 1 May 1999	251	375	321	3,876
Retained loss for the year	-	-	-	(102)
Balance at 30 April 2000	**251**	**375**	**321**	**3,774**

The cumulative amount of positive goodwill resulting from the acquisition of subsidiary undertakings in earlier financial years which has been written off against reserves is £2,025,000 *(1999:£2,025,000)*. These amounts are net of goodwill attributable to businesses disposed of prior to the balance sheet date.

Company	Revaluation reserve £000	Merger relief reserve £000	Profit and loss account £000
Balance at 1 May 1999	833	375	981
Retained loss for the year	-	-	(34)
Balance at 30 April 2000	**833**	**375**	**947**

Notes *(continued)*

25 Reconciliations of movements in shareholders' funds

	2000 £000	1999 £000
Group		
Profit for the financial year	**352**	878
Dividends	**(454)**	(454)
Net (reduction in)/addition to shareholders' funds	**(102)**	424
Opening shareholders' funds	**6,798**	6,374
Closing shareholders' funds	**6,696**	6,798

	2000 £000	1999 £000
Company		
Profit for the financial year	**420**	546
Dividends	**(454)**	(454)
Net addition to shareholders' funds	**(34)**	92
Opening shareholders' funds	**4,164**	4,072
Closing shareholders' funds	**4,130**	4,164

Notes *(continued)*

26 Acquisitions

On 19 May 1999 the Group acquired the trade and certain assets of Conder Products Limited and Conder Sewage Technology Limited. The resulting goodwill was capitalised and is being amortised over 20 years.

The other acquisition relates to the purchase of the goodwill of a sole trader business.

The assets acquired, at fair value, are shown below. There is no material difference between the book value and fair value of these assets.

	Conder acquisition £000	Other acquisitions £000	Total £000
Fixed assets			
Tangible assets	216	-	**216**
Current assets			
Stocks and work in progress	240	-	**240**
Total assets	456	-	**456**
Liabilities			
Earn out liability	(215)	-	**(215)**
Other creditors	(3)	-	**(3)**
Total liabilities	(218)	-	**(218)**
Net assets acquired	238	-	**238**
Goodwill	2,332	63	**2,395**
	2,570	63	**2,633**
Discharged by:			
Cash consideration	2,500	60	**2,560**
Costs associated with acquisition	70	3	**73**
	2,570	63	**2,633**

In the unaudited interim report for the half year ended 31 October 1999, the goodwill arising on the Conder acquisition was stated as £1,998,000. The goodwill is now stated as £2,332,000; the principal for the difference relates to the inclusion above of the liability in respect of an earn out agreement arising from the acquisition of the Conder Sewage Technology business by the vendors in 1998. This liability was acquired by the Group, but at the time of publication of the interim report it was not anticipated that an earn out would be payable. Other differences relate to the inclusion of acquisition costs and adjustments to the fair value of stocks acquired.

Notes *(continued)*

26 Acquisitions *(continued)*

The summarised profit and loss account for the period from 31 December 1998, the end of the previous period, to the date of acquisition for the Conder businesses is as follows:

	£000
Turnover	1,249
Operating profit	110
Profit before taxation	38
Taxation	(12)
Profit after taxation	26

In the previous financial year the loss before taxation was £397,000.

27 Reconciliation of operating profit to operating cash flows

	2000 £000	1999 £000
Operating profit	**1,082**	1,783
Depreciation and amortisation	**1,608**	1,224
Profit on disposal of fixed assets	**(137)**	(55)
Movement in stocks	**(468)**	328
Movement in creditors	**1,464**	(484)
Movement in debtors	**(2,062)**	1,356
Movement in provisions	**-**	(100)
Net cash inflow from operating activities	**1,487**	4,052

28 Reconciliation of net cash flow to movement in net debt

	2000 £000	1999 £000
Decrease in cash in the year	**(2,459)**	(654)
Cash (inflow)/outflow from increase in liquid resources	**(1,000)**	1,000
Cash outflow from decrease in debt and lease financing	**234**	1,129
Charge in net debt resulting from cash flows	**(3,225)**	1,475
New finance leases	**(1,011)**	(596)
Movement in net debt in the year	**(4,236)**	879
Net debt at beginning of year	**(3,009)**	(3,888)
Net debt at end of period	**(7,245)**	(3,009)

Notes *(continued)*

29 Analysis of net debt

	At 1 May 1999 £000	**Cash flow** **£000**	**Other non-cash flows** **£000**	**At 30 April 2000** **£000**
Cash at bank and in hand	3,395	(3,055)	-	**340**
Overdrafts	(2,598)	(404)	-	**(3,002)**
	797	(3,459)	-	**(2,662)**
Debt due within one year	(360)	297	(547)	**(610)**
Debt due after one year	(720)	(1,000)	547	**(1,173)**
Finance leases	(2,726)	937	(1,011)	**(2,800)**
Total	(3,009)	(3,225)	(1,011)	**(7,245)**

Notes *(continued)*

30 Analysis of cash flows for headings netted in the cash flow statement

	2000 £000	1999 £000
Return on investments and servicing of finance		
Interest received	**43**	198
Interest paid	**(353)**	(338)
Interest element of finance lease rentals	**(195)**	(193)
Net cash outflow for returns on investments and servicing of finance	**(505)**	(333)
Capital expenditure and financial investment:		
Purchase of intangible fixed assets	**-**	(46)
Purchase of tangible fixed assets	**(834)**	(849)
Sale of tangible fixed assets	**186**	100
Net cash outflow for capital expenditure and financial investment	**(648)**	(795)
Acquisitions and disposals:		
Purchase of subsidiary undertaking	**-**	(250)
Purchase of businesses	**(2,633)**	-
Net cash outflow for acquisitions and disposals	**(2,633)**	(250)
Management of liquid resources:		
Decrease/(increase) in short term deposits	**1,000**	(1,000)
Net cash inflow/(outflow) for management of liquid resources	**1,000**	(1,000)
Financing:		
New loans	**1,250**	-
Repayment of loans	**(547)**	(360)
Capital element of finance lease rental payments	**(937)**	(769)
Net cash outflow from financing	**(234)**	(1,129)

Notes *(continued)*

31 Commitments

Group

Capital commitments at 30 April 2000, for which no provision has been made in these accounts, were as follows:

	2000	1999
	£000	£000
Contracted	**-**	992

Company

The Company had no capital commitments at 30 April 2000 or 1999.

32 Operating leases

At 30 April 2000 the Group had annual commitments under operating leases as follows:

	Land and buildings		**Other**	
	2000	1999	**2000**	1999
	£000	£000	**£000**	£000
Expiring within one year	**10**	11	**10**	-
Expiring between two and five years	**83**	40	**38**	8
Expiring beyond five years	**80**	49	**24**	-
	173	100	**72**	8

33 Contingent liabilities

The Group has given bank guarantees of £492,000 *(1999:£647,000)* arising from sales in the United Kingdom and the Rest of the World in the normal course of trade.

The Company has given an unlimited guarantee in respect of the overdrafts of certain subsidiary undertakings. At 30 April 2000 these overdrafts totalled £810,000 *(1999:£1,846,000)*.

Notes *(continued)*

34 Pensions

The Southern Vectis Group operates a defined benefit pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund called the Southern Vectis Group Pension Plan. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of valuations using the projected unit method. The most recent valuation for accounting purposes was at 6 April 1997. The assumptions which have most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 2.5% more than salary increases and future pensions would increase at the rate laid down in the rules. The most recent actuarial valuation showed that the market value of the scheme's assets was £7,773,000 and that the actuarial value of those assets represented 99% of the benefits that had accrued to members after allowing for expected future increases in earnings.

Vikoma International Limited operates a money purchase scheme which holds the assets separately from those of the company.

The pensions charge for the year was £489,000 *(1999:£475,000).* At the year end £29,899 of contributions were outstanding *(1999: £Nil).*

35 Related party transactions

During the year the Group received legal services from Roach Pittis Solicitors, a firm in which AP Holmes, a director of the Company, is a partner. The total amounts paid by the Group in respect of these services was £3,087 *(1999: £11,225)* and £2,920 was owed by the Group at 30 April 2000 *(1999: £Nil).*

Notes *(continued)*

36 Subsidiaries

The following is a list of the Group's subsidiary undertakings which are not dormant.

Subsidiary	Principal activities	Country of incorporation and operation	Proportion of ordinary shares held by the company
Southern Vectis Transport Limited	Holding company	UK	100%
The Southern Vectis Omnibus Company Ltd	Public transport operator	UK	* 100%
Musterphantom Ltd	Public transport operator	UK	* 100%
Vikki Osborne (IW) Holidays Ltd	Package holiday operator	UK	* 100%
Southern Vectis Commercials Ltd	Commercial vehicle engineering	UK	* 100%
Southern Vectis Coaches Ltd	Coach operator	UK	* 100%
Vikoma International Limited	Oil spill containment and recovery	UK	100%
Conder Products Limited (formerly Hoyle Marine International Limited)	Waste water treatment	UK	* 100%
Conder Sewage Technology Limited (formerly Metal Fashions Limited)	Waste water treatment	UK	* 100%

* shares not held by the Company but by a subsidiary.

All of the above companies are included in the consolidation. The Group also owns 20% of the ordinary share capital of the Kaliskie Linie Autobusow and 29% of the ordinary share capital of Chelm Linie Autobusow. Both of these companies are registered in and operate in Poland and neither is considered material to the Group.