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MIDLAND RED WEST HOLDINGS LIMITED

REPORT AND ACCOUNTS

PERIOD TO 31 DECEMBER 1987



MIDLAND RED WEST HOLDINGS LIMITED

REPORT OF THE DIRECTORS

The directors submit their report and the audited accounts for the period from incorporation on 29th September 1986 to 31st December 1987.

PRINCIPAL ACTIVITY

The company and its subsidiaries operate buses and coaches in the West Midlands and Bristol.

REVIEW OF BUSINESS

On 22nd December 1986 the company acquired the entire issued share capital of Midland Red West Limited and Midland Red Coaches Limited and on the 18th September 1987 that of Bristol Omnibus Company Limited.

RESULTS AND DIVIDENDS

The group's results for the year under the historical cost accounting convention which are set out in detail on page 4 show a profit before tax of £923,000.

These results take no account of the additional depreciation required to reflect the substantially increased replacement cost of the Fixed Assets, particularly the Public Service Vehicles. In order to fully reflect this increase in replacement cost for the year an additional replacement depreciation premium of £1,080,000 is required. The result is that on a replacement cost basis the group's results for the year would show a loss of £157,000.

The directors do not recommend the payment of a dividend.

DIRECTORS

The directors who were in office at 31st December 1987 and their beneficial interests in the shares of the company at the end of the period were:-

		Ordinary Shares of 5p each <u>At 31st December 1987</u>
K Mills	(Appointed 17th November 1986)	340,000
D F Ross	(Appointed 17th November 1986)	340,000
V J Woolley	(Appointed 17th November 1986)	161,000
P K Williams	(Appointed 3rd February 1987)	nil
G G T Varley	(Appointed 18th September 1987)	161,000



MIDLAND RED WEST HOLDINGS LIMITED

REPORT OF THE DIRECTORSDISABLED PERSONS

The group recognises its obligations to give disabled people full and fair consideration for all vacancies within the statutory medical requirements which have to be met for certain grades of staff. Wherever reasonable and practicable, the company will retain newly disabled employees and at the same time provide fair opportunities for the career development of disabled people.

EMPLOYEE INVOLVEMENT

Communication with employees is effected mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the central and depot negotiating committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters of decision likely to affect their interests.

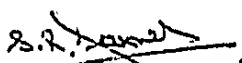
TAXATION STATUS

In the opinion of the directors the company is not a close company within the meaning of the Income and Corporation Taxes Act 1970 (as amended).

AUDITORS

Spicer and Pegler were appointed auditors during the period. On 18th January 1988 Spicer and Pegler changed their name to Spicer & Oppenheim. A resolution to reappoint the auditors, Spicer & Oppenheim will be proposed at the Annual General Meeting.

By Order of the Board



S R JAMES
Secretary

15th March 1988

MIDLAND RED WEST HOLDINGS LIMITED

REPORT OF THE AUDITORS TO THE MEMBERS OF MIDLAND RED WEST HOLDINGS LIMITED

We have audited the financial statements on pages 4 to 17 in accordance with approved Auditing Standards.

In our opinion the financial statements which have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, give a true and fair view of the state of affairs of the company at 31st December 1987 and of its result and source and application of funds for the period then ended and comply with the Companies Act 1985.

Dudley, West Midlands

Spicer & Oppenheim.

SPICER & OPPENHEIM

Chartered Accountants

15th March 1988

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the period ended 31st December 1987

	<u>Note</u>	<u>£000's</u>	<u>£000's</u>
TURNOVER			
Other operating income	1 (c)		20,082
			<u>312</u>
			20,394
Raw Materials and consumables		(3,820)	
Other external charges		(2,159)	
Staff Costs	3	(12,130)	
Depreciation	2	<u>(1,272)</u>	
			<u>(19,381)</u>
OPERATING PROFIT	2		1,013
Interest receivable and similar income	5	215	
Interest payable and similar charges	6	<u>(305)</u>	<u>(90)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			923
Tax on profit on ordinary activities	7		<u>(122)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			<u>801</u>
Extraordinary item	8		<u>(49)</u>
RETAINED PROFIT FOR THE PERIOD	18		<u>£ 752</u>

The notes on pages 8 to 17 form an integral part of these accounts.

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
CONSOLIDATED BALANCE SHEET
for the period ended 31st December 1987

	<u>Note</u>	<u>£000's</u>	<u>£000's</u>
FIXED ASSETS			
Tangible Assets	10		8,637
CURRENT ASSETS			
Stocks		649	
Debtors	12	2,028	
Short term deposits		2,500	
Cash at bank and in hand		<u>1,338</u>	
		6,515	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	<u>(6,799)</u>	
NET CURRENT LIABILITIES			<u>(284)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			8,353
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14		(3,690)
PROVISIONS FOR LIABILITIES AND CHARGES	16		<u>(267)</u>
			£ 4,396
			=====
CAPITAL AND RESERVES			
CALLED UP SHARE CAPITAL	17		139
RESERVES			
Share Premium Account	18	18	
Capital Reserves	18	3,487	
Profit and Loss Account	18	<u>752</u>	
			4,257

SHAREHOLDERS' FUNDS			£ 4,396
			=====

Approved by the Board of Directors

K Mills

D F Ross

15th March 1988

The notes on pages 8 to 17 form an integral part of these accounts.

MIDLAND RED WEST HOLDINGS LIMITED
BALANCE SHEET
for the period ended 31st December 1987

	<u>Note</u>	<u>£000's</u>	<u>£000's</u>
FIXED ASSETS			
Investment in Subsidiaries	11		66
CURRENT ASSETS			
Debtors	12	3,961	
Short term deposits		2,500	
Cash at bank and in hand		<u>1,331</u>	
		7,792	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(4,821)	
NET CURRENT ASSETS			<u>2,971</u>
TOTAL ASSETS			3,037
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14		(2,900)
			<u>£ 137</u>
CAPITAL AND RESERVES			
CALLED UP SHARE CAPITAL	17		139
RESERVES	18	18	
Share Premium Account	13	(20)	(2)
Profit and Loss Account			<u>£ 137</u>
SHAREHOLDERS' FUNDS			<u>£ 137</u>

Approved by the Board of Directors

K Mills

D F Ross

15th March 1988

The notes on pages 8 to 17 form an integral part of these accounts.

MIDLAND RED WEST HOLDINGS LIMITED
and its subsidiary companies
SOURCE AND APPLICATION OF FUNDS
for the period ended 31st December 1987

	<u>£000's</u>	<u>£000's</u>
SOURCE OF FUNDS		
Profit on ordinary activities before taxation		923
Items not involving the movement of funds:		
Depreciation	1,272	
Profit on disposal of fixed assets	<u>(5)</u>	<u>1,267</u>
		2,190
FUNDS GENERATED FROM OPERATIONS		
FUNDS FROM OTHER SOURCES		
Sale of Tangible Assets	11	
Issue of shares	157	
Loans	3,925	
Capital reserve on acquisition of subsidiaries	3,487	
Provision for taxation and rectification of public service vehicles on acquisition of subsidiaries	<u>185</u>	<u>7,765</u>
		9,955
APPLICATION OF FUNDS		
Purchase of tangible fixed assets on acquisition of subsidiaries	(8,333)	
Purchase of tangible assets	(1,582)	
Extraordinary item	<u>(49)</u>	<u>(9,964)</u>
		£ (9)
DECREASE IN WORKING CAPITAL		=====
FUNDED BY:-		
Increase in:-		
Stocks	649	
Debtors	2,028	
Cash at bank and in hand	<u>3,838</u>	6,515
(Increase) in:-		
Creditors	<u>(6,524)</u>	<u>(6,524)</u>
		£ (9)
		=====

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

1. ACCOUNTING POLICIES

(a) CONVENTION

These financial statements have been prepared in accordance with the historical cost convention modified to incorporate the revaluation of certain fixed assets. The principal accounting policies which the directors have adopted within that convention are set out below.

(b) BASIS OF CONSOLIDATION

The group accounts consolidate the accounts of the company and its subsidiaries. All companies within the group make up their accounts to 31st December.

(c) TURNOVER

Turnover is the gross revenue for road passenger transport.

(d) DEFERRED TAXATION

Provision has been made for deferred taxation on the basis of full liability at the rate of corporation tax applying when the liability is estimated to arise.

No provision has been made for any tax liability in respect of chargeable gains which might arise in the event of properties being realised at balance sheet values as it is intended that most of these properties will be retained in the business on a long term basis.

(e) TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible assets are depreciated on a straight line basis over their estimated useful lives as follows:-

Freehold land	- Nil
Freehold buildings	- 50 years
Leasehold buildings	- length of lease or 40 years (whichever is the shorter)
Public service vehicles depending on type	- 5 - 16 years
Minibuses, staff cars, lorries etc	- 3 - 6 years
Plant and machinery, furniture and fittings	- 5 - 10 years
Office machinery	- 7 years
Ticket machines	- 7 years
Electronic computers	- 3 - 5 years

Depreciation of certain public service vehicles has been provided at higher rates in their earlier years of ownership.

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

(f) GRANTS

Grants in respect of tangible assets are deducted from the cost of the assets giving the cost for depreciation purposes.

Grants under Section 1 Transport Act 1978 and Section 33 Transport Act 1968 are taken into account in the profit and loss account.

(g) LEASED ASSETS

Fixed assets leased under finance leases are capitalised and depreciated over their expected useful lives. The finance charges are allocated over the primary period of the lease in proportion to the capital element outstanding. The costs of operating leases are charged to the profit and loss account as they accrue.

(h) STOCK

Stock is valued on the average cost price basis after due allowance for obsolete or slow moving items. The Directors are of the opinion that the replacement value of stock is not materially different to that shown on the balance sheet. Stock consists of engineering spare parts, spare units and fuel.

2. OPERATING PROFIT

	<u>£000's</u>
Operating profit is arrived at after charging:	
Depreciation of owned goods	1,170
Depreciation of assets held under finance leases	<u>102</u>
	£ 1,272

Auditors' remuneration	13
Operating lease rentals	96

and after crediting:	
Revenue support grants	6
Reimbursement of Fuel Duty	1,495
Profits less losses on disposal of tangible assets	
included in other operating income	5

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

3. EMPLOYEES

Number of
Employees

The average number of employees in each week of the year broken down into the following categories was:

Drivers, Conductors and Hosts/Hostesses	905
Maintenance and Engineering	173
Other	<u>182</u>

1,260

£000's

Costs incurred in respect of the employees were:

Wages and Salaries	10,749
Social security costs	870
Other pension costs	434
Redundancy and termination payments	<u>77</u>

£ 12,130
=====

4. DIRECTORS

£000's

Emoluments of Directors of the Company included in Staff costs were:

Management remuneration	£ 139 =====
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The emoluments (excluding pension contributions) of Directors were:

Chairman	£ 42 =====
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Highest paid Director

Chairman

Other Directors:

No of Directors

£ 0 - £ 5,000	1
£ 5,001 - £10,000	1
£30,001 - £35,000	1
£35,001 - £40,000	1

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

5.	INTEREST RECEIVABLE AND SIMILAR INTEREST	<u>£000's</u>
	Bank Interest receivable	£ 215
		=====
6.	INTEREST PAYABLE AND SIMILAR CHARGES	<u>£000's</u>
	On bank loans repayable in part after 5 years	293
	Charges arising on finance leases	<u>12</u>
		£ 305
		=====
7.	TAX ON PROFIT ON ORDINARY ACTIVITIES	<u>£000's</u>
	Taxation is based on the profit for the period and comprises:-	
	Corporation tax at 35%	120
	Deferred taxation	<u>2</u>
		£ 122
		=====
8.	EXTRAORDINARY ITEM	<u>£000's</u>
	Extraordinary costs relating to the acquisition of subsidiary companies	£ 49
		=====
9.	(LOSS) FOR THE PERIOD ATTRIBUTABLE TO THE MEMBERS OF MIDLAND RED WEST HOLDINGS LIMITED	<u>£000's</u>
	(Loss) dealt with in the accounts of the holding company	£ (20)
		=====
	The company has taken advantage of S.228 (7) of the Companies Act 1985 and consequently a profit and loss account for the company alone is not presented.	

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

10. TANGIBLE ASSETS	Land and buildings Freehold £000's	Short leasehold £000's	Public Service vehicles £000's	Plant and machinery etc £000's	Total £000's
COST OR VALUATION					
Subsidiaries acquired	968	615	13,704	1,581	16,868
Additions	-	-	1,480	102	1,582
Disposals	-	-	(34)	(15)	(49)
At 31st December 1987	968	615	15,150	1,668	18,401
DEPRECIATION					
Subsidiaries acquired	19	66	7,787	663	8,535
Charge for year	18	6	1,131	117	1,272
Disposals	-	-	(34)	(9)	(43)
At 31st December 1987	37	72	8,884	771	9,764
NET BOOK VALUE					
At 31 December 1987	£ 931	543	6,266	897	£ 8,637

Notes:

(a) Land and buildings at cost or valuation are stated: at open market valuation in 1985 - Freehold	£000's
at cost	910
- Short leasehold	7
- Freehold	58
- Short leasehold	608

£ 1,583

If stated under historical cost principles the
comparable amounts for land and buildings would be:

Cost	- Freehold	
	- Short leasehold	2,024
Accumulated depreciation	- Freehold	668
	- Short leasehold	(355)
		(87)

£ 2,250

All other tangible fixed assets are stated at historical cost.

- (b) Included in public service vehicles are assets of net book value
£1,333,584 held under finance leases.

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

11. FIXED ASSET INVESTMENT

(a) COMPANY

Group Companies
shares at cost
£000's

COST

Acquired during period

£ 66

==

(b) SUBSIDIARIES

The subsidiary companies in which Midland Red West Holdings Limited holds 100% of the share capital were:-

Midland Red West Limited
Midland Red Coaches Limited
Bristol Omnibus Company Limited
Neartrack Limited
Ingleby (230) Limited
Ingleby (231) Limited

These companies are all incorporated in Great Britain. Midland Red West Limited and Bristol Omnibus Company Limited are operators of buses and coaches. Midland Red Coaches Limited is a dormant company. Neartrack Limited, Ingleby (230) Limited and Ingleby (231) Limited have not commenced trading.

12. DEBTORS

	Group £000's	Company £000's
Trade debtors	842	-
Other debtors	91	-
Prepayments and accrued income	697	36
Central government debtor	398	-
Amount due from subsidiary companies	<u>-</u>	<u>3,925</u>
	£ 2,028	£ 3,961
	=====	=====

The amount due from subsidiary companies includes £2,900,000 which is due after more than one year. All other amounts included above are due within one year.

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group £000's	Company £000's
Trade creditors	1,835	-
Other creditors	1,290	15
Corporation tax	40	-
Other taxation and social security	516	12
Accruals and deferred income	851	-
Obligations under finance leases (see note 20)	401	-
Bank Loans (see note 15)	1,025	1,025
Amount due to subsidiary companies	<u>-</u>	<u>3,768</u>
	5,958	4,821
Bank overdraft	<u>841</u>	<u>-</u>
	<u>£ 6,799</u>	<u>£ 4,821</u>

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group £000's	Company £000's
Bank Loans (see note 15)	2,900	2,900
Obligations under finance leases: (see note 20)		
Amounts falling due in second to fifth years inclusive	<u>790</u>	<u>-</u>
	<u>£ 3,690</u>	<u>£ 2,900</u>

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

15. BANK LOANS

	Group and Company	
	Due within one year £000's	Due after one year £000's
Hill Samuel & Co Limited		
1988/1994 at approximately 2% over libor rate	75	450
1988/1989 at approximately 1½% over libor rate	450	450
1988/1992 at approximately 2% over libor rate	<u>500</u>	<u>2,000</u>
	£ 1,025	£ 2,900
	=====	=====
Amounts wholly due within five years		2,450
Amounts repayable by instalments which in part fall due after more than five years		<u>450</u>
		£ 2,900
		=====

The bank loans are secured by fixed and floating charges over the whole of the undertaking, property and assets of the group.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Group £000's
(a) Movement in year	
Deferred taxation:	
Subsidiaries acquired	182
Charge for period	<u>2</u>
	184
Provision for rectification of public service vehicles:	
Subsidiaries acquired	<u>83</u>
Total provision	£ 267
	=====
(b) Deferred taxation provisions at period end	
Capital allowances in excess of depreciation	916
Other timing differences	(10)
Unused tax losses (see below)	<u>(722)</u>
	£ 184
	=====

The Corporation tax losses of a subsidiary company available to set off against future profits are subject to agreement with the Inland Revenue. The level of these losses will also be dependent upon the amount of group relief claimed by the previous owners.

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

17. CALLED UP SHARE CAPITAL

	No	£
Ordinary shares of 5p each		
Authorised -		
On incorporation	20,000	1,000
On acquisition of Midland Red West Ltd	2,060,000	103,000
On acquisition of Bristol Omnibus Company Ltd	<u>1,001,500</u>	<u>50,075</u>
	3,081,500	£ 154,075
	=====	=====
Issued and fully paid		
On incorporation	40	2
On acquisition of Midland Red West Ltd	1,871,960	93,598
On acquisition of Bristol Omnibus Company Ltd	<u>901,350</u>	<u>45,067</u>
	2,773,350	£ 138,667
	=====	=====

The shares issued on the acquisition of Bristol Omnibus Company Limited were made at a consideration of 7p per share.

Under the terms of an agreement dated 22nd December 1986 between the company and Hill Samuel & Co Limited, an option has been granted whereby Hill Samuel & Co Limited will be entitled to acquire 10% in nominal value of ordinary share capital of the company. The option is exercisable at anytime prior to six months after all bank loans referred to in note 15 have been repaid.

18. RESERVES

	Group £000's	Company £000's
As at 31st December 1987		
Share premium account		
Premium on shares issued in year	18	18
Capital Reserve		
Capital reserve arising on consolidation	3,487	-
Profit and loss account:-		
Retained profit/(loss) for the period	<u>752</u>	<u>(20)</u>
	£ 4,257	£ (2)
	=====	=====
Available for distribution	752	-
Not available for distribution	<u>3,505</u>	<u>(2)</u>
	£ 4,257	£ (2)
	=====	=====

MIDLAND RED WEST HOLDINGS LIMITED
and subsidiary companies
NOTES TO THE ACCOUNTS
for the period ended 31st December 1987

19. FINANCIAL COMMITMENTS

(a) OPERATING LEASES

At 31st December 1987 the group had annual commitments under non-cancellable operating leases as set out below:-

	Land and buildings £000's	Other £000's
Operating leases which expire:		
Within one year	10	-
Over five years	<u>98</u>	<u>2</u>
	£ 108	£ 2
	----	----

A subsidiary company pays a fee for the occupation of three depots under a licensing agreement. The amount of the fee due under the agreement is due for renewal in July 1988.

(b) FUTURE CAPITAL EXPENDITURE

	Group £000's	Company £000's
Contracted for but not provided for	693	-
Authorised by the directors but not contracted for	<u>—</u>	<u>—</u>
	£ 693	£ -
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20. OBLIGATIONS UNDER FINANCE LEASES

The previous owners of a subsidiary company act as guarantors for the payment of obligations under finance leases which at 31st December 1987 amounted to £1,095,000. In respect of this guarantee the previous owners have a fixed and floating charge over the whole of the undertaking, property and assets of the group.