

2826284

A copy of this document, which comprises a prospectus relating to Metroline plc prepared in accordance with the listing rules made under Section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 149 of that Act, as extended by Section 154A of that Act.

The Directors of Metroline plc, whose names appear on page 4 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

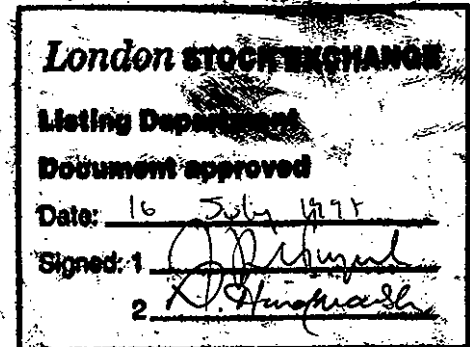
Application has been made to the London Stock Exchange for the whole of the ordinary share capital of Metroline plc, issued and now being issued, to be admitted to the Official List of the London Stock Exchange. It is expected that Admission will become effective, and that dealings in the Ordinary Shares will commence, on 29 July 1997. The Ordinary Shares being allotted will, on Admission, rank *pari passu* in all respects with the existing Ordinary Shares and will rank in full for all dividends and other distributions thereafter declared, made or paid in respect of the ordinary share capital of the Company.

# Metroline



(Incorporated in England and Wales under the Companies Act 1985 with registered no. 2826284)

PLACING  
by  
Granville & Co.



of 6,954,640 Ordinary Shares of 5p each at 173p per share  
payable in full on application

Authorised		Share capital immediately following Admission	Issued and fully paid	
Number	Nominal Value		Number	Nominal Value
30,000,000	£1,500,000	in ordinary shares of 5p each	21,490,304	£1,074,515

#### Indebtedness

At the close of business on 20 June 1997, Metroline plc and its subsidiaries had outstanding secured borrowings of £2.38 million and finance lease and hire purchase commitments of £15.114 million.

Save as aforesaid, and apart from intra group liabilities, neither Metroline plc nor any of its subsidiaries had outstanding at the close of business on 20 June 1997 any loan capital, whether outstanding or created but unissued, any term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or other contingent liabilities.

At the close of business on 20 June 1997, Metroline plc and its subsidiaries had aggregate cash balances of £3.375 million.

Granville & Co., a division of Granville Limited which is regulated by The Securities and Futures Authority Limited and is a member of the London Stock Exchange, is acting for Metroline plc and no one else in connection with the Placing and will not be responsible to anyone other than Metroline plc for providing the protections afforded to customers of Granville & Co., or for providing advice in relation to the Placing.

In making any investment decisions in respect of the Placing, no information or representation should be relied on in relation to the Placing, Metroline plc or any of its subsidiaries or investments or its shares, other than as contained in this document. No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representation must not be relied on as having been authorised. Neither the delivery of this document nor any subscription made hereunder shall, under any circumstance, constitute a representation or imply that there has been no change in the affairs of Metroline plc or any of its subsidiaries since the date hereof or that the information herein is correct as of any time subsequent to the date of this document.

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## DEFINITIONS AND GLOSSARY

The following definitions are used throughout this document except where the context requires otherwise:

"Act"	the Companies Act 1985, as amended
"Admission"	the admission to the Official List of 21,490,304 Ordinary Shares issued and now being issued pursuant to the Placing
"Brents"	Brents Travel Group Limited, a wholly owned subsidiary of the Company, together with its subsidiaries
"bus mile"	a mile operated by a bus whilst in service
"Buy-out"	the management and employee buy-out of Metroline Travel from London Transport in 1994
"Company" or "Metroline"	Metroline plc
"DoT"	the Department of Transport
"Director(s)" or "Board"	the directors of the Company
"EBT"	The Metroline Employee Benefit Trust
"Employee Scheme"	The Metroline plc Employee Share Option Scheme (1997)
"Executive Scheme"	The Metroline plc Executive Share Option Scheme (1997)
"Existing Schemes"	The Metroline Profit-Sharing Scheme, The Metroline 1994 Unapproved Share Option Scheme, the EBT and The Metroline Employee (No.2) Trust
"Group"	Metroline plc and its subsidiaries
"Granville & Co."	Granville & Co., a division of Granville Limited
"Granville Davies"	Granville Davies, a division of Granville Limited
"London"	the Greater London area
"London Stock Exchange"	London Stock Exchange Limited
"LT" or "London Transport"	London Regional Transport or any subsidiary as the context requires
"London Underground"	London Underground Limited
"Metroline Travel"	Metroline Travel Limited, a wholly owned subsidiary of the Company
"Official List"	the Official List of the London Stock Exchange
"Ordinary Share"	an ordinary share of 5p in the capital of the Company
"passenger journeys"	the number of discrete journeys undertaken by individual passengers
"passenger miles"	the aggregate number of miles covered by all passengers making passenger journeys
"Placing"	the placing by Granville & Co., on behalf of the Company and the Vendors, of 6,954,640 Ordinary Shares at the Placing Price, as described in this document
"Placing Price"	173p per Ordinary Share
"Red Route"	a section of road, identified by a red line near the kerb, along which vehicles generally may not stop
"RPI"	the Retail Prices Index
"Share Option Schemes"	the Employee Scheme and the Executive Scheme
"Vendors"	those Directors and other shareholders who have agreed to sell a proportion of their Ordinary Shares pursuant to the placing agreement described in further detail in paragraph 11 of Part 5 of this document

## DIRECTORS, SECRETARY AND ADVISERS

Directors:	Albert Morris Declan Gerard O'Farrell John Golledge Gordon Tennant Michael John Smith Christopher John Harper Alan Charles Coppin	Chairman, Non-Executive Chief Executive Finance Director Operations Director Engineering Director Non-Executive Director Non-Executive Director
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*all of 118-122 College Road, Harrow, Middlesex, HA1 1DB*

Registered Office: 118-122 College Road  
Harrow  
Middlesex, HA1 1DB

Company Secretary: John Golledge, FCMA

Sponsor and Financial Adviser: Granville & Co.  
Mint House  
77 Mansell Street  
London, E1 8AF

Stockbroker: Granville Davies  
Mint House  
77 Mansell Street  
London, E1 8AF

Solicitors to the Company: Berwin Leighton  
Adelaide House  
London Bridge  
London, EC4R 9HA

Solicitors to the Listing: Rowe & Maw  
20 Black Friars Lane  
London, EC4V 6HD

Auditors and Reporting Accountants: Ernst & Young  
Becket House  
1 Lambeth Palace Road  
London, SE1 7EU

Principal Bankers: Société Générale  
Exchange House  
Primrose Street  
London, EC2A 2HT

Registrars: Independent Registrars Group Limited  
Balfour House  
390/398 High Road  
Ilford  
Essex, IG1 1NQ

## PLACING STATISTICS

Placing Price	173p
Number of Ordinary Shares being placed on behalf of:	
(i) the Company	1,734,104
(ii) the Vendors	5,220,536
Estimated net proceeds receivable by the Company <sup>(1)</sup>	£2.05 million
Number of Ordinary Shares in issue following the Placing	21,490,304
Market capitalisation at the Placing Price	£37.2 million
Percentage of enlarged issued ordinary share capital being placed	32.4%
Historical earnings per ordinary share for the year ended 11 October 1996 <sup>(2)</sup>	172p
Adjusted earnings per Ordinary Share for the year ended 11 October 1996 <sup>(3)</sup>	9.1p
Forecast earnings per Ordinary Share for the year ending 10 October 1997 <sup>(4)</sup>	16.7p
Price earnings multiple at the Placing Price based on:	
earnings per Ordinary Share for the year ended 11 October 1996	19.0x
forecast earnings per Ordinary Share for the year ending 10 October 1997	10.4x
Forecast net dividend per Ordinary Share for the year ending 10 October 1997 <sup>(5)</sup>	1.8p
Notional gross dividend yield at the Placing Price <sup>(6)</sup>	4.2%

### Notes:

- (1) Estimated net proceeds are stated after the deduction of the estimated total flotation expenses payable by the Company of £950,000 (excluding VAT).
- (2) The historical earnings per ordinary share for the year ended 11 October 1996 are based on the number of ordinary shares in issue during that year as set out in note 7.10 of Part 2 of this document.
- (3) The adjusted earnings per Ordinary Share shown for the year ended 11 October 1996 reflect the share capital reorganisation effective from Admission as set out in note 7.10 of Part 2 of this document.
- (4) The basis of the forecast earnings per Ordinary Share for the year ending 10 October 1997 is set out in Part 3 of this document.
- (5) Details of the forecast net dividend for the period from Admission to 10 October 1997, which is to be paid in March 1998, are set out under "Dividend policy" in Part 1 of this document.
- (6) The notional gross dividend yield is calculated by dividing the notional gross dividend of 7.3p per Ordinary Share which the Directors would have expected to recommend for the year ending 10 October 1997 (being a notional net dividend of 5.5p per Ordinary Share inclusive of the associated tax credit calculated at the rate of  $\frac{20}{100}$ ths of the net dividend) by the Placing Price and expressing the result as a percentage.

## EXPECTED TIMETABLE

	1997
Share certificates despatched to placees	29 July
Dealings expected to commence	29 July

## KEY INFORMATION

The following key information is derived from, and should be read in conjunction with, the full text of this document.

### Summary of business

Metroline is a London bus company which operates a fleet of 450 buses and employs over 1,200 staff. 86 per cent. of the Group's turnover for the year ended 11 October 1996 was derived from contracts to run scheduled bus routes for London Transport. Another 6 per cent. of turnover related to bus services provided to customers such as London Underground, passenger rail companies and supermarkets, and 6 per cent. related to coach services operated by its subsidiary, Brents.

Metroline was formed as a result of a management and employee buy-out from London Transport in October 1994. The management team has been in place since 1989 when the business was organised into substantially its present form. Since the Buy-out, greater commercial freedom has allowed the Directors to improve substantially both the profitability of the Company and the quality of its services. Management has achieved significant improvements to productivity and efficiency, for example, through the creation of devolved profit centres and reductions in central overheads.

### Key strengths

- Experienced management team with a successful record of developing the business;
- high quality earnings supported by long term contracts with LT;
- efficient organisation with an established workforce; and
- consistent record of providing high levels of service.

### Strategy

The Board's strategy is to develop Metroline into a broad based passenger transport group both organically and through acquisitions. The management team's knowledge of the London bus market and the Company's high levels of service mean that the Company is well placed to win new contracts and gain market share.

The Directors believe that there are significant opportunities to acquire other passenger transport operations. They are confident that the skills and strengths which they have utilised to develop Metroline can be applied successfully to other businesses in both bus and other passenger transport sectors.

### Financial track record

Set out below is a summary of the Group's financial record for the period from 1 April 1993 to 28 March 1997, which has been extracted from the Accountants' Report on the Group set out in Part 2 of this document.

Period ended:	LT Ownership		Post Buy-out		
	31 March 1994	14 October 1994	13 October 1995	11 October 1996	28 March 1997
Number of weeks:	52	28	52	52	24
	£'000	£'000	£'000	£'000	£'000
Turnover	28,501	15,790	32,553	37,097	16,590
Operating profit before exceptional item	1,417	734	3,691	5,565	2,555
Operating margin	5.0%	4.6%	11.3%	15.0%	15.4%
Profit on ordinary activities before taxation	1,408	734	1,678	3,009	2,090
Profit on ordinary activities after taxation	1,408	699	1,509	2,008	1,636

### Current trading, profit forecast and prospects

Trading in the period since 11 October 1996 has been satisfactory, helped by further growth on existing routes under contract to LT. The business remains strongly cash generative.

The Directors are forecasting that, for the year ending 10 October 1997, in the absence of unforeseen circumstances and on the bases and assumptions set out in Part 3 of this document, profit on ordinary activities before taxation will be not less than £4.0 million (an increase of 33 per cent. on the previous year or an increase of 13 per cent. before the exceptional item in that year), that profit on ordinary activities after taxation will be not less than £3.45 million (an increase of 72 per cent.) and that earnings per Ordinary Share will not be less than 16.7p. Further details of the profit forecast are set out in Part 3 of this document.

Metroline's existing business continues to expand. Three new routes will commence operation later in this financial year which will generate additional turnover in the next financial year.

### Dividend policy

Following Admission, the Company intends to pay interim and final dividends in August and March in the proportions of one third and two thirds respectively. The Directors expect to declare a final dividend for the year ending 10 October 1997 of 2.4p per Ordinary Share which will be payable in March 1998.

## PART 1 INFORMATION ON METROLINE

### INTRODUCTION

Metroline is a London bus company which operates a fleet of 450 buses in North West and Central London. Turnover from operating services regulated by LT comprised 86 per cent. of the Group's turnover for the year ended 11 October 1996. Metroline also provides bus services to other customers such as London Underground, passenger rail companies and supermarkets. Its subsidiary, Brents, operates a fleet of high quality coaches primarily serving the London tourist market.

### HISTORY AND BUSINESS

The business of Metroline has been operating under its current management in substantially its present form since 1989. Before then, LT operated bus routes through its subsidiary, London Buses Limited. In preparation for privatisation, these routes were divided amongst eleven, subsequently ten, main operating subsidiaries. One of these was Metroline Travel, which was allocated the operation of routes within an area stretching from North West London into Central London. It remained a subsidiary of LT but operated on a more autonomous basis within the overall framework of LT.

On 7 October 1994, the management and employees of Metroline Travel effected the Buy-out from LT. At the time of the Buy-out, Metroline operated a fleet of 387 buses from five depots. Key to the business which it acquired were the contracts with LT to operate 32 routes. These contracts had between one and six years to run. All but one of these routes are still operated by Metroline and contracts to operate a further three routes have been won by the Company. In addition, two routes were acquired with the business of Atlas Bus and Coach Limited in November 1994 and a route restructuring has resulted in one additional route. The operation of these contracts with LT to run 37 routes remains Metroline's principal activity.

### STRATEGY

The Board's strategy is to develop Metroline into a broad based passenger transport group.

Since the Buy-out, the executive Directors have demonstrated their ability successfully to grow the profitability of the Company in a competitive market. The Board's policy is to remain competitive and to maintain high operational standards and quality of service, which are conducive to the maintenance of good long term relations with its customers. This will be achieved through innovation, cost containment, increased productivity and the maintenance of positive industrial relations with the workforce.

The Directors believe that management's in-depth knowledge of the London bus market and Metroline's ability to provide a high level of service, place it in a strong position to secure new contracts and to gain market share. The Directors also intend to expand the business and increase profits through acquisitions. While they expect these acquisitions to be primarily in the bus sector, they will also pursue opportunities in other passenger transport sectors where they can apply their experience and expertise.

The Directors believe that the new Government's transport policies will be beneficial to bus companies such as Metroline, which have experience of operating in a regulated environment. The Directors welcome the indication from the new Government, that it intends to address transport and environmental issues on an integrated basis. The Board supports the Government's desire to reduce traffic congestion and to promote quality partnerships between the public and private sectors.



The Board considers that flotation is an important step towards achieving the objectives set out above. The overall strategy is to deliver profitable growth and to position the Company among the best that operate in the sector.

## THE LONDON BUS MARKET

London has a population of around seven million people and is one of the largest bus markets in the world. In London, over 200 million bus miles are operated each year and there are around 3.7 million passenger journeys on an average weekday. Bus passenger journeys account for approximately 25 per cent. of all road journeys in London. Since 1993/94, London has seen growth in passenger journeys, passenger miles and average fare per passenger mile.

The following table shows passenger journeys, passenger miles and bus miles in London for each year from 1 April 1992 to 31 March 1997:

	Years ended 31 March				
	1993	1994	1995	1996	1997
Passenger journeys (millions)	1,127	1,112	1,159	1,198	1,234
Passenger miles (millions)	2,437	2,373	2,431	2,497	2,584
Bus miles (millions)	191	193	200	204	206
Average fare per passenger mile (pence)	18.8	18.8	19.8	20.4	21.2

*Source: London Transport's Annual Report 1996/97. Figures converted from kilometres to miles.*

The Directors estimate that Metroline's share of the London bus market, calculated in terms of bus miles, is approximately 6 per cent.

The continued expansion of the London bus network, as evidenced by the increase in bus mileage, and the recent upward trend of passenger journeys, demonstrates growth opportunities within Metroline's principal market.

Bus usage in London is proportionately higher than in the UK as a whole: London accounts for 12 per cent. of the UK population but 27 per cent. of UK bus travel. Most Londoners live within five minutes' walk of a bus stop and a substantial minority do not have access to a car.

LT estimated in November 1996 that London bus passenger use would rise by a further 15 per cent. over the next 20 years. In 1996, the DoT produced a strategy paper for transport in London, which stated that factors likely to encourage an increase in bus usage in the future include:

- the completion of the 410 mile Red Route network. The aim of the Red Route network is to increase the flow of traffic, rather than to increase road capacity. The initial pilot scheme, which came into operation in January 1991, resulted in a 10 per cent. reduction in journey times, a 23 per cent. improvement in bus reliability and a 10 per cent. increase in bus usage in that area;
- the introduction of traffic regulations to implement a London-wide bus priority network. This involves the introduction of additional bus lanes and giving buses priority at road junctions; and
- the increased use of new technology being introduced by LT at bus stops and on buses to provide passengers with more information and a more reliable service. Examples include real time information displays already installed at 400 bus stops in London, and automatic vehicle location systems which will encompass the entire London bus network by the year 2000.

The Directors believe that these steps, which are already underway, together with the increased use of midibuses and high specification, low floor, buses which allow easier access for passengers, will encourage the use of buses.

### Regulation

To provide bus services within the UK, a bus operator must hold and maintain an operator's licence issued by the Traffic Commissioners. The licence will determine for that operator, the number and type of vehicles which it may operate. The Traffic Commissioners will monitor the operator's suitability for operating passenger carrying vehicles by reviewing such factors as financial standing, vehicle maintenance facilities and management competence.

In addition, LT regulates bus and underground services in London which is the most comprehensively regulated bus market in the UK. It has a statutory duty to provide public transport which is efficient, economical and safe. The routes, service standards and fares for all bus and underground services are drawn up by LT on an integrated basis. For example, Travelcards can be purchased which are valid on all forms of public transport in London. LT consults bus and underground operators and users in relation to proposed changes in service provision, the design of routes and the levels of fares. LT also provides customer information and revenue protection inspectors for the network. Metroline liaises closely with LT to improve the overall quality and efficiency of the Company's services which, for example, has led to the introduction of environmentally friendly, low sulphur fuels.

In order to tender for a London bus route contract, a bus operator must first complete a comprehensive pre-qualification process. When awarding contracts, LT takes into account not only the relative financial merits of any bid, but also such factors as the operator's ability to meet service standards, the availability of staff, the quality of vehicles, the financial resources, and its health and safety record. Consideration of past performance can give an advantage to existing operators. Following the award of a contract, LT monitors the operator's performance to ensure it continues to meet the necessary service standards. Failure to meet standards can lead to penalties and ultimately to the withdrawal of a route from an operator. Metroline has a very good record of achieving LT's service standards and has recently won a number of new contracts. LT contracts also contain provisions which allow LT to put the routes up for re-tender should there be a change of control of the operator without LT's consent. LT has confirmed to the Board that it does not view the Placing as giving rise to a right by LT to terminate any of its contracts with Metroline.

### COMPETITION

There are over 30 operators in the London bus market; however, the majority of bus services are provided by operators which are subsidiaries of four public listed companies: Cowie Group plc, FirstBus plc, Stagecoach Holdings plc and Go-Ahead Group plc. These listed companies own, between them, 15 operators which account for over 70 per cent. of the total London bus market. The remainder of the market is operated by large privately owned operators such as Metroline and a number of smaller operators.

Bus operators in London compete by tendering for contracts to operate specific routes or groups of routes. Once a bus operator has won a tender, it has the exclusive right to operate that route, or group of routes, for a set period, normally five years.

Metroline's main competitors at the tendering stage are other London bus operators. The vast majority of tenders have been won by established operators in the London bus market, who meet the wide-ranging criteria set by LT. Potential entrants to the London bus market may face difficulty in finding sites suitable for bus operations. The Directors believe that some large bus

companies, already operating in the London bus market, may also be restricted by the size of their existing market shares.

In the period since the Buy-out, Metroline has demonstrated relatively strong growth in turnover compared to the other former subsidiaries of LT. In addition, Metroline's operating profit margin before an exceptional item in the year ended 11 October 1996 was 15 per cent. and the Directors believe that this ranks amongst the highest when compared to the operating profit margins achieved by the other nine former LT bus operating subsidiaries.

## ACTIVITIES

The following table sets out Metroline's sources of income for the year ended 11 October 1996, by activity:

Year ended 11 October 1996 Activity	Turnover £'000	%
LT bus services	31,898	86
Other bus services	2,284	6
Coach services	2,178	6
Other income	737	2
Source: Metroline	37,097	100

### LT bus services

Eighty six per cent. of Metroline's turnover in the year to 11 October 1996 was generated from the operation of bus routes regulated by LT. Contracts to operate bus routes regulated by LT, which generate high quality earnings, are normally for five years with a mutual break point after three years. They fall broadly into two categories:

- (a) "net cost" contracts, where Metroline benefits from any increase in passenger usage but also bears the revenue risk. The operator receives all bus revenue for that route and either pays a licence fee to or receives a subsidy from LT. Such payments will change annually broadly in line with RPI;
- (b) "gross cost" contracts, where Metroline is paid a fixed sum, which will change annually broadly in line with RPI, to operate the route and LT receives the revenue and bears the revenue risk.

All new LT contracts are now subject to tender. The Directors believe that the majority of contracts will be on a net cost basis. Consequently, the proportion of Metroline's contracts which are net cost is likely to increase significantly as gross cost contracts, when due for renewal, will be re-tendered on a net cost basis.

Metroline, which has considerable experience of operating net cost contracts, favours this method of operation because it benefits directly from increased bus usage on the relevant route. The Company is operating in a growing market and has benefited from the general increase in London bus passenger volume during the last three years. Metroline pursues opportunities for increasing revenue through improving the quality of service and marketing initiatives. For the year ended 11 October 1996, revenue from net cost contracts represented 65 per cent. of turnover derived from operating LT routes.

In the two years ended 28 March 1997, Metroline retained all of its routes which were re-tendered. In addition, Metroline won three new contracts, commencing operation between August and October 1997, which will generate additional turnover in the next financial year.

### **Other bus services**

Six per cent. of Metroline's turnover for the year ended 11 October 1996, was derived from operating buses which are not regulated by LT. Metroline has a dedicated fleet of 30 buses which it uses for rail replacement work, other non-LT bus services and bus private hire. These buses give the Company additional flexibility in meeting other business opportunities.

Metroline operates rail replacement bus services for train operators such as London Underground, when sections of the rail and underground network are being repaired or refurbished. In addition, Metroline provides replacement services to such organisations in emergencies and has established good relationships with them.

Rail replacement work is unpredictable but normally commands better margins than regulated work. The Directors believe that Metroline's flexible workforce and its ability to meet unscheduled demand at short notice enables it to benefit from these and other opportunities. The Board regards rail replacement work as a useful addition to the income it derives from its principal activity.

Metroline also provides buses for local authorities and major supermarkets and makes buses available for private hire.

### **Coach services**

Metroline operates a fleet of high quality coaches from a base in Watford, through its subsidiary Brents, which it acquired in 1995. Brents principally caters for the London tourist market and its customers include tour operators. Coaches are also available for private hire. Metroline acquired Brents to enlarge its presence in the London coach market and to provide a focal point for all Metroline's coaching operations. Although losses have been incurred, the anticipated benefits of the acquisition, following the introduction of Metroline's management disciplines, are beginning to materialise.

### **Other income**

Metroline also receives income from selling advertising space on buses and for providing engineering and training services to third parties.

### **Operations**

The Company currently operates approximately 450 buses and 30 coaches from three freehold and three leasehold properties which are located across North West London and in South West Hertfordshire. Excluding the Company's fleet of 50 Routemasters, which date back to the 1960s, the average age of the bus fleet is approximately 9 years. Since the Buy-out, the Company has purchased 84 new buses and a further 58 buses have been ordered, of which 23 relate to new routes.

The table below sets out the numbers of staff and vehicles at the various sites, as at 20 June 1997.

Sites	No. of staff	No. of vehicles
Cricklewood	266	132
Willesden	388	120
Harrow Weald	191	69
North Wembley	150	76
Edgware	135	53
Watford (coaches only)	42	28
Harrow (head office)	36	-
Source: Metroline	1,208	478

The Company employs its own maintenance engineers and has maintenance facilities at five sites. All vehicles are subject to planned preventative maintenance inspections at four weekly intervals. Each month 5 per cent. of the fleet is also subject to spot checks by the Company's quality control team which is independent from the mainstream engineering staff and reports directly to the engineering director. In addition to these checks, drivers are required to advise the engineers, through a reporting system, of any defects which they observe during their periods of duty.

Management has achieved significant improvements to productivity and efficiency, for example through the creation of devolved profit centres and reductions in central overheads.

## DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### Directors

The Board comprises four executive and three non-executive Directors.

#### *Bert Morris, chairman, non-executive, aged 62 years.*

Bert Morris joined Metroline as Chairman in June 1997. Until October 1994, he was on the Board of National Westminster Bank plc, having joined Westminster Bank in 1956. He has been Chairman of BACS (Bankers Automated Clearing Services) and APACS (Association for Payment Clearing Services) and a member of the European Banking Federation. He was a founding member of the UK Banking Ombudsman Scheme. Bert Morris is a fellow of the Chartered Institute of Bankers and of the Royal Society of Arts. He is a non-executive director of Lorien plc and Regent Associates Limited. Bert Morris served as a non-executive on the Board of the Department of Social Security from January 1993 to March 1997 and chaired the Department's Audit Committee from 1995 to 1997.

#### *Declan O'Farrell FCCA, chief executive, aged 48 years.*

Declan O'Farrell, a Certified Accountant, joined London Buses Limited in 1986. He was appointed Managing Director of Metroline Travel in 1988. He is Deputy Chairman of the North West London Training and Enterprise Council and Chairman of Business Link London. He was previously a financial controller within Express Foods Group, then part of Grand Metropolitan plc.

#### *John Golledge FCMA, finance director, aged 42 years.*

John Golledge, a fellow of the Chartered Institute of Management Accountants, joined Metroline Travel as Finance Director shortly after it began trading in 1989. He previously held

various financial positions including chief accountant of Donnay (UK) Limited and as management accountant for the worldwide operations of the "International Holiday on Ice" Group.

***Gordon Tennant BSc, MCIT, operations director, aged 38 years.***

Gordon Tennant, a member of the Chartered Institute of Transport, joined London Transport as a graduate trainee in 1979. He was appointed General Manager of Harrow Buses, one of the first self-sufficient commercial operations within London Buses in 1987 and joined the Board of Metroline Travel in 1989 as Commercial Director before taking on the role of Operations Director. He is a non-executive director of University Bus Limited, a bus company owned by the University of Hertfordshire.

***Mike Smith AMIRTE, engineering director, aged 56 years.***

Mike Smith started his working career with London Transport in 1957, and joined the Board of Metroline Travel in 1989. He is an associate member of the Institute of Road Transport Engineers and has considerable experience of engineering, technical, safety and man management issues. He led the project team which introduced the four weekly maintenance system into London Buses Limited, and he has held engineering management positions both at garage and head office levels.

***Alan Coppin, non-executive director, aged 47 years.***

Alan Coppin, who is chief executive of Wembley plc, joined Metroline as a non-executive director in June 1997. Prior to joining Wembley plc, Alan Coppin was a management consultant in KPMG's specialist Leisure and Tourism Group. He has also held senior management positions in Associated Leisure Limited and Trusthouse Forte Leisure. Alan Coppin is a companion of the Institute of Management and a director of the children's charity Cities in Schools, UK.

***Chris Harper ACA, non-executive director, aged 34 years.***

Chris Harper, who qualified as an accountant with Arthur Andersen & Co. and is currently a director of Granville Private Equity Managers Limited, joined Metroline as a non-executive director in 1994. Prior to joining the Granville group in 1991, Chris Harper was a Vice President of Security Pacific Eurofinance PLC. He is currently also a non-executive director of Merlin Distribution (Holdings) Limited and Valetmatic Holdings Limited.

## Senior management

Metroline has a senior management team which has extensive experience of the bus industry. The principal members of the senior management team are listed below.

<i>Name</i>	<i>Position</i>	<i>Age (years)</i>	<i>Length of service (years)*</i>
Keith Hawes	Garage manager	46	20
Bernie McWeeney	Garage manager	42	24
Simon Durrant	Human resources manager	42	15
Eddie Ledwith	Development and safety manager	46	21
Mike Morgan	Group chief accountant	44	1
Declan Finnegan	Projects manager	44	25
Bob Davidson	Senior maintenance manager	43	22
Peter Heywood	Senior maintenance manager	45	5

*\*Based on service with London Transport and Metroline*

## Employees

As at 20 June 1997, Metroline had 1,208 employees, 924 of whom were drivers, 88 were conductors, 92 were engineering staff and 104 were administrative employees.

The Company is committed to achieving the "Investors In People" award. All staff are encouraged to participate in training programmes. In addition to professional and trade specific qualifications, the Company encourages National Vocational Qualifications ("NVQs"). As at 20 June 1997, 81 engineering employees and 344 driving employees were registered in the Vehicle Engineering Competence Assessment Scheme and Driver Competence Assessment Scheme, respectively, which are the industry accredited NVQs.

The Company has consultative and negotiating arrangements with recognised trade unions which represent the interests of the majority of staff. The Company enjoys a successful record of industrial relations. There have been no days lost through industrial disputes since the Buy-out. The Company conducts annual pay negotiations with all groups of staff.

## Incentive Schemes

At the time of the Buy-out, the Company established the EBT to subscribe for shares which represented 25.1 per cent. of the Company's issued ordinary share capital. Subsequently these shares were appropriated to individual employees through The Metroline Profit-Sharing Scheme, although under the terms of this scheme most of these shares are not available for realisation by those individuals until 3 October 1997 with the balance becoming available on 26 March 1998. It was also agreed at the time of the Buy-out to grant options to the executive Directors and certain other senior employees. These options were granted under The Metroline 1994 Unapproved Share Option Scheme. The options granted to the executive Directors have been exercised. The options granted to other senior employees will become exercisable following the publication of the Company's audited accounts for the year ending 9 October 1998.

In addition, following the Buy-out, the Company established The Metroline Employee (No.2) Trust to acquire the shares of senior managers who left the Company with a view to making them available to incentivise future senior managers. No further options will be granted under The Metroline 1994 Unapproved Share Option Scheme and, without the prior consent of the Company in general meeting, no Ordinary Shares will be issued to the trustees of the EBT, The Metroline Profit-Sharing Scheme or The Metroline Employee (No.2) Trust.

The Directors believe that the substantial employee ownership achieved through The Metroline Profit-Sharing Scheme has been a key factor in the success of the Company by creating a high level of employee commitment and loyalty. The Directors recognise the continuing need to incentivise and retain senior executives and other employees. Accordingly, the Company has introduced two new employee share schemes, the Employee Scheme and the Executive Scheme.

Under the Employee Scheme, the Company will be able to grant options to acquire Ordinary Shares at a future date and at a price equal to the market value of the shares at the time of grant of the options. On each occasion that the Employee Scheme is operated, the Company will grant options to all qualifying employees although the level of grant may vary according to objective factors such as salary or length of service. The Board proposes to grant, immediately before and conditional on Admission, options over a maximum of 256,025 Ordinary Shares (representing 1.2 per cent. of the enlarged issued share capital following Admission). Each employee of the Group at the date of grant, excluding the Directors, will be granted an option to acquire 209 Ordinary Shares under the Employee Scheme at an exercise price equal to the Placing Price.

Under the Executive Scheme, the Remuneration Committee will be able to grant options to selected directors, senior management and certain other key employees to acquire Ordinary Shares at a future date at a price equal to the market value of the shares at the time of grant. Exercise of these options will normally be conditional on the achievement of a specified performance target determined by the Remuneration Committee, which has indicated that it will have regard to guidelines on share option schemes issued by institutional investors.

The Share Option Schemes are designed to comply with institutional guidelines on the number of shares which may be issued under such schemes. Details of the Existing Schemes and the Share Option Schemes are set out in paragraph 6 of Part 5 of this document.

## **CORPORATE GOVERNANCE**

The Directors have reviewed the compliance of the Group with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance and with the recommendations of the Greenbury Study Group on Directors' Remuneration published in July 1995. The Board considers that the Group will comply after Admission with the Code of Best Practice and the recommendations of the Greenbury Study Group, in so far as is appropriate for a group of Metroline's size.

Metroline has established an Audit Committee and a Remuneration Committee, both of which will be chaired by Bert Morris and include Alan Coppin and Chris Harper. The Audit Committee will meet at least twice a year, consider the appointment and fees of the external auditors and discuss the scope of the audit and its findings. The committee is also responsible for monitoring compliance with accounting and legal requirements (and changes thereto), and for reviewing the interim and annual reports before publication. The Remuneration Committee is responsible for agreeing the remuneration of the executive Directors and senior employees.

## **FINANCIAL RECORD**

The summary financial record of the Group, set out below, has been extracted or derived from the Accountants' Report on the Group set out in Part 2 of this document.



Period ended:	LT Ownership		Post Buy-out		
	31 March 1994	14 October 1994	13 October 1995	11 October 1996	28 March 1997
Number of weeks:	52	28	52	52	24
	£'000	£'000	£'000	£'000	£'000
Turnover	28,501	15,790	32,553	37,097	16,590
Operating profit before exceptional item	1,417	734	3,691	5,565	2,555
Operating margin	5.0%	4.6%	11.3%	15.0%	15.4%
Profit on ordinary activities before taxation	1,408	734	1,678	3,009	2,090
Profit on ordinary activities after taxation	1,408	699	1,509	2,008	1,636

The table above shows the historic financial performance of the Group over approximately four years comprising two periods immediately preceding the Buy-out, the two years following the Buy-out and the 24 week period to 28 March 1997.

Turnover has grown from £28.5 million in the year ended 31 March 1994 to £37.1 million in the year ended 11 October 1996, an increase of 30 per cent. Approximately half of this growth is a result of the acquisitions of Atlas Bus and Coach Limited and Brents Travel Group Limited. The remainder has been achieved through increases in contract prices and passenger numbers together with higher revenue from other commercial activities such as the provision of rail replacement services.

Operating margins have considerably improved since 1994 as a result of management's actions to increase operating efficiency. This has included a reduction in costs, changes in working practices and enhanced revenue streams from other activities such as advertising. The Directors believe that the Company's operating margin of 15 per cent. for the year ended 11 October 1996 is one of the highest in the London bus market.

The profit on ordinary activities before taxation for the year ended 11 October 1996 is stated after a charge of £524,000 being the Directors' estimate of the permanent diminution in value of certain high capacity single decker buses.

The profit on ordinary activities before taxation for the 24 weeks ended 28 March 1997 includes a profit of £303,000 from the sale of surplus buses released following the purchase of new vehicles. While the buying and selling of buses is in the ordinary course of the business, in view of the size of the gain this item has been specifically identified.

Since the Buy-out, the Company has invested approximately £7 million in new buses. In addition, a further £5 million has been committed to fund further bus purchases. In line with the Board's policy, hire purchase facilities have been arranged to fund these bus purchases.

This investment in new vehicles will result in a low effective tax rate in the year to 10 October 1997. Continuing fleet renewal is expected to result in low effective rates of corporation tax for the Company in the foreseeable future.

## CURRENT TRADING AND PROSPECTS

Trading in the period since 11 October 1996 has been satisfactory, helped by further growth in existing routes under contract to LT. Revenue from underground and rail replacement work has, however, been lower than for the corresponding period in the previous year. The business remains strongly cash generative.

The Company has successfully tendered for three new LT routes which will commence operation later this financial year and consequently the full benefit from these routes will become apparent in the year ending 9 October 1998.

The Directors forecast that, on the assumptions detailed in Part 3 of this document, the profit on ordinary activities before taxation for the year ending 10 October 1997 will not be less than £4.0 million as set out below.

## **PROFIT FORECAST**

The Directors are forecasting that, for the year ending 10 October 1997, in the absence of unforeseen circumstances and on the bases and assumptions set out in Part 3 of this document, profit on ordinary activities before taxation will not be less than £4.0 million (an increase of 33 per cent. on the previous year or an increase of 13 per cent. before the exceptional item in that year), that profit on ordinary activities after taxation will not be less than £3.45 million (an increase of 72 per cent.) and that earnings per Ordinary Share will not be less than 16.7p. Further details of the profit forecast are set out in Part 3 of this document.

## **DIVIDEND FORECAST AND POLICY**

The Ordinary Shares will, on Admission becoming effective, rank equally and in full for all dividends or distributions declared, paid or made thereafter in respect of the ordinary share capital of the Company. If the Ordinary Shares which will be in issue immediately following the Placing had been listed on the London Stock Exchange for the whole year ending 10 October 1997, and based on the profit forecast (as set out in Part 3 of this document), the Directors would have expected to recommend a total net dividend, in respect of that year, of 5.5p per Ordinary Share. At the Placing Price, this forecast dividend would have represented a gross yield of 4.2 per cent. and would have been covered 3.1 times by the forecast earnings per Ordinary Share for the year ending 10 October 1997.

It is expected that following Admission, interim and final dividends will be paid in August and March, respectively, of each financial year. It is anticipated that the interim dividend will amount to approximately one third of the total dividend payable in each year. In the absence of unforeseen circumstances, it is expected that the first dividend following the Placing will be the final net dividend of 1.8p in respect of the period from Admission to 10 October 1997, which will be payable in March 1998.

## **REASONS FOR THE FLOTATION**

The Company's strategy is to deliver profitable growth through increased market share and acquisitions, and the Board considers that the flotation of Metroline will help achieve this objective and enhance Metroline's profile. The capital raised by the Company through the Placing will be used to redeem the 70,000 £1 preference shares for £653,000 and repay the outstanding £2.38 million subordinated loan notes for an aggregate total of £3.033 million. The flotation will provide an opportunity for certain existing shareholders to realise a proportion of their investment.

Participation in the flotation will provide an incentive for employees and provide those employees and other shareholders who have supported the Group over recent years with a market for their Ordinary Shares.

## **DETAILS OF THE PLACING**

The Placing comprises 6,954,640 Ordinary Shares which, at the Placing Price, are valued at £12.1 million. 1,734,104 Ordinary Shares are being offered for subscription on behalf of the

Company to raise approximately £2.05 million net of expenses. In addition 5,220,536 Ordinary Shares are being sold on behalf of the Vendors through the Placing. The Directors and employees will continue to hold a significant proportion of the ordinary issued share capital following the Placing. The Placing, which is conditional on Admission becoming effective before 29 July 1997 and the placing agreement not having been terminated in accordance with its terms, has been fully underwritten by Granville & Co., a division of Granville Limited.

The Directors have undertaken to the Company and to Granville & Co., that they will not dispose of any Ordinary Shares held by them immediately following the Placing prior to the publication of the Report & Accounts of Metroline for the year ending on or around 11 October 1998 without the prior written consent of Granville & Co. and that, prior to the publication of the interim results for the period ending on or around 20 March 1999, will only dispose of any such Ordinary Shares through the Company's brokers.

Those Vendors which are funds advised or managed by Granville Private Equity Managers Limited have undertaken not to dispose of any Ordinary Shares held by them immediately following the Placing prior to the publication of the Report & Accounts of Metroline for the year ending 10 October 1997 and only to dispose of any Ordinary Shares from that date until the publication of the interim results for the period ending on or around 20 March 1998 following consultation with Granville & Co.

Employees of the Group are being given the opportunity to participate in the Placing at the Placing Price. Ordinary Shares with an aggregate value, at the Placing Price, of £1.2 million (representing 10.0 per cent. of the Placing) have been reserved for qualifying employees, who will each be guaranteed the opportunity to purchase Ordinary Shares worth up to £1,000. Employees may apply for more than £1,000 of Ordinary Shares. In the event of employee interest in the Placing exceeding an aggregate £1.2 million, the Company, advised by Granville & Co. and Granville Davies, will endeavour to satisfy all employee demands in full. Employees are being offered an interest-free loan of either £250 or £500 from the Company, repayable within 12 months. The loan may only be used for purchasing shares in the Placing. Shares may only be applied for in tranches of £250. Any employee who acquires more than £5,000 of Ordinary Shares will be required to agree not to dispose of the excess for a period of one year from Admission without the consent of Granville & Co.

PART 2  
ACCOUNTANTS' REPORT ON METROLINE

Set out below is a copy of a report by Ernst & Young, Chartered Accountants.

**ERNST & YOUNG**

■ Chartered Accountants  
Becket House  
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The Directors  
Metroline plc  
118-122 College Road  
Harrow  
Middlesex HA1 1DB

16 July 1997

The Directors  
Granville & Co.  
Mint House  
77 Mansell Street  
London E1 8AF

Gentlemen

**1. INTRODUCTION**

We report in connection with the placing ("the Placing") by Granville & Co., a division of Granville Limited, of 6,954,640 ordinary shares in Metroline plc ("the Company") referred to in the prospectus of the Company dated 16 July 1997.

The Company was incorporated on 11 June 1993 as Gravitas 1058 Limited. On 15 December 1994 the Company changed its name to Metroline Holdings Limited and on 30 June 1997 re-registered as a public limited company and changed its name to Metroline plc. The Company did not trade until 7 October 1994 when it acquired the entire issued share capital of Metroline Travel Limited ("Metroline Travel"). Metroline Travel has traded throughout the period covered by this report. We refer to the Company and its subsidiaries, or Metroline Travel prior to its acquisition by the Company, as "the Group".

We have examined the audited financial statements of Metroline Travel for the year ended 31 March 1994 and the period ended 14 October 1994; and the audited consolidated financial statements of the Company for the year ended 13 October 1995, the year ended 11 October 1996 and the period ended 28 March 1997.

The financial statements were audited by KPMG, Chartered Accountants, in respect of the year ended 31 March 1994 and by ourselves for the period ended 14 October 1994, the two years ended 11 October 1996 and the period ended 28 March 1997. The consolidated financial statements for the period ended 28 March 1997 were prepared for the purposes of the Placing and do not comprise statutory accounts. Each of these reports was unqualified.

Audited accounts have not been prepared in respect of the Group for any period subsequent to 28 March 1997. Our work has been carried out in accordance with the Auditing Guideline "Prospectuses and the reporting accountant".

The basis of preparation of the financial information is described in Section 2. No adjustments have been made as we consider none to be necessary.

In our opinion the financial information gives, for the purpose of the prospectus, a true and fair view of the profits and cash flows of the Group for the year ended 31 March 1994, the period

ended 14 October 1994, the year ended 13 October 1995, the year ended 11 October 1996 and the period ended 28 March 1997 and of the state of affairs of the Group at the end of each of those accounting periods.

## 2. ACCOUNTING POLICIES

### *Basis of preparation*

The accounts of the Group are prepared under the historical cost convention, modified where appropriate to incorporate the professional valuation of certain fixed assets, and in accordance with applicable accounting standards.

The financial information has been prepared on the following basis:

- for the year ended 31 March 1994 and the period ended 14 October 1994 the financial information relates solely to Metroline Travel and has been extracted from the audited financial statements of Metroline Travel; and
- for the two years ended 11 October 1996 and the period ended 28 March 1997 the financial information has been extracted from the consolidated accounts of the Company.

As a consequence of the change in ownership in 1994, the results for the periods under review may not be directly comparable, particularly as regards the financing and interest costs.

### *Basis of consolidation*

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired in the period are included in the consolidated profit and loss account from the date of acquisition. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off to reserves on acquisition.

### *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at historical cost less accumulated depreciation, except for freehold land which is revalued. Depreciation is provided on a straight line basis over the estimated useful lives of the assets as follows:

Freehold buildings	– 10 years
Plant and equipment	– range from 1 to 10 years
Buses	– range from 3 to 17 years

Freehold land is not depreciated.

### *Leased assets*

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

The cost of operating leases is charged directly to the profit and loss account over the period of the leases on a straight line basis.

### *Stocks*

Stocks consist primarily of materials required for the operation and maintenance of buses. These materials are valued at the lower of cost and net realisable value.

### *Pensions*

The Group operates a UK defined benefits pension scheme, the assets of which are held in trustee administered funds. The Group's pension costs are assessed in accordance with the advice of a qualified actuary on the basis of final pensionable earnings.

### *Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation only to the extent that it is probable that an actual liability will crystallise.

### *Capital instruments*

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefit and if they are not included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate of the carrying amount, with appropriate adjustment to take account of early redemption.

### 3. PROFIT AND LOSS ACCOUNTS

The consolidated profit and loss accounts of the Group are set out below:

		Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
	Notes					
Turnover	7.1	28,501	15,790	32,553	37,097	16,590
Cost of sales		21,710	12,235	23,564	26,617	11,941
Gross profit		6,791	3,555	8,989	10,480	4,649
Administration expenses		5,374	2,821	5,298	5,439	2,094
Operating profit before exceptional item	7.2	1,417	734	3,691	5,565	2,555
Exceptional item	7.5	–	–	–	(524)	–
Operating profit		1,417	734	3,691	5,041	2,555
Profit/(loss) on disposal of tangible fixed assets		(9)	–	(3)	8	303
Profit on ordinary activities before interest		1,408	734	3,688	5,049	2,858
Interest receivable and similar income	7.6	–	–	115	112	69
Interest payable and similar charges	7.7	–	–	(2,125)	(2,152)	(837)
Profit on ordinary activities before taxation		1,408	734	1,678	3,009	2,090
Tax on profit on ordinary activities	7.8	–	(35)	(169)	(1,001)	(454)
Profit on ordinary activities after taxation		1,408	699	1,509	2,008	1,636
Preference dividends – non-equity shares	7.9	–	–	(9)	(12)	(3)
Ordinary dividends equity shares		(730)	(676)	–	–	–
Other appropriations – non-equity shares		–	–	(284)	(273)	(103)
Retained profit for the year/period		678	23	1,216	1,723	1,530
Dividend per share (pence)		22	21	–	–	–
Earnings per share (pence)	7.10	124	21	122	172	153
Adjusted earnings per share (pence)	7.10			6.4	9.1	8.1

#### 4. BALANCE SHEETS

The consolidated balance sheets of the Group are set out below:

		31 March 1994 £000	14 October 1994 £000	13 October 1995 £000	11 October 1996 £000	28 March 1997 £000
	Notes					
<b>Fixed assets</b>						
Tangible assets	7.11	13,178	14,048	14,369	15,350	16,631
Investments	7.13	100	100	100	100	100
		<u>13,278</u>	<u>14,148</u>	<u>14,469</u>	<u>15,450</u>	<u>16,731</u>
<b>Current assets</b>						
Stocks	7.14	346	324	337	388	403
Debtors	7.15	1,694	2,688	3,756	4,775	4,130
Cash at bank and in hand	7.16	205	683	2,347	1,809	4,079
		<u>2,245</u>	<u>3,695</u>	<u>6,440</u>	<u>6,972</u>	<u>8,612</u>
<b>Creditors: amounts falling due within one year</b>	7.17	8,074	10,371	8,510	10,275	10,329
<b>Net current liabilities</b>		<u>(5,829)</u>	<u>(6,676)</u>	<u>(2,070)</u>	<u>(3,303)</u>	<u>(1,717)</u>
<b>Total assets less current liabilities</b>		<u>7,449</u>	<u>7,472</u>	<u>12,399</u>	<u>12,147</u>	<u>15,014</u>
<b>Creditors: amounts falling due after more than one year</b>	7.18	—	—	17,251	14,274	15,508
		<u>7,449</u>	<u>7,472</u>	<u>(4,852)</u>	<u>(2,127)</u>	<u>(494)</u>
<b>Capital and reserves</b>						
Called-up share capital	7.22	3,294	3,294	101	71	71
Share premium account	7.24	3,293	3,293	298	298	298
Revaluation reserve	7.24	862	779	—	905	905
Capital redemption reserve	7.24	—	—	—	30	30
Profit and loss account	7.24	—	106	(5,251)	(3,431)	(1,798)
<b>Shareholders' funds:</b>						
Equity		7,449	7,472	(5,236)	(2,608)	(1,078)
Non-equity		—	—	384	481	584
		<u>7,449</u>	<u>7,472</u>	<u>(4,852)</u>	<u>(2,127)</u>	<u>(494)</u>



## 5. CASH FLOW STATEMENTS

The cash flow statements of the Group are set out below:

		Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
	Notes					
Net cash inflow/(outflow) from operating activities	7.2	464	3,701	(872)	7,660	3,046
Returns on investments and servicing of finance						
Interest paid		-	-	(1,710)	(1,952)	(790)
Interest received		-	-	115	112	69
Preference dividends paid		-	-	(9)	(12)	(3)
Net cash (outflow) from returns on investments and servicing of finance		-	-	(1,604)	(1,852)	(724)
Taxation		-	-	(35)	(106)	-
Capital expenditure and financial investment						
Purchase of tangible fixed assets		(6,930)	(1,816)	(413)	(97)	-
Purchase of investments		(100)	-	-	-	-
Sale of tangible fixed assets		-	-	-	276	600
Net cash inflow/(outflow) from capital expenditure and financial investment		(7,030)	(1,816)	(413)	179	600
Acquisitions and disposals						
Purchase of subsidiaries		-	-	(14,434)	-	-
Cash acquired with subsidiaries		-	-	646	-	-
Net cash (outflow) from acquisitions and disposals		-	-	(13,788)	-	-
Equity dividends paid		-	(1,406)	-	-	-
Net cash inflow/(outflow) before financing		(6,566)	479	(16,712)	5,881	2,922

## 5. CASH FLOW STATEMENTS *continued*

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
<b>Financing</b>					
Issue of ordinary share capital	6,586	—	399	—	—
Proceeds from new borrowings	—	—	10,000	—	—
Issue costs of new borrowings	—	—	(255)	—	—
Proceeds from sale and leaseback of assets	—	—	10,506	—	—
Repayment of bank loan	—	—	(1,600)	(4,250)	(750)
Repayment of loan notes	—	—	—	(1,020)	—
Capital element of finance lease rental payments	—	—	—	(1,349)	(528)
Payments to redeem preference shares	—	—	—	—	—
— nominal amount	—	—	—	(30)	—
— premium	—	—	—	(146)	—
<b>Net cash inflow/(outflow) from financing</b>	<b>6,586</b>	<b>—</b>	<b>19,050</b>	<b>(6,795)</b>	<b>(1,278)</b>
<b>Increase/(decrease) in cash in the year/period</b>	<b>20</b>	<b>479</b>	<b>2,338</b>	<b>(914)</b>	<b>1,644</b>

## 6. STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The recognised gains and losses of the Group are set out below:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Profit on ordinary activities after taxation	1,408	699	1,509	2,008	1,636
Unrealised surplus on revaluation of fixed assets	878	—	—	905	—
<b>Total recognised gains and losses for the year/period</b>	<b>2,286</b>	<b>699</b>	<b>1,509</b>	<b>2,913</b>	<b>1,636</b>

## 7. NOTES TO THE FINANCIAL INFORMATION

### 7.1 Turnover and profit before taxation

The Group's turnover, which is stated net of value added tax, and profit before taxation derives from the provision of road passenger transport services in and to and from the Greater London area.

### 7.2 Operating profit

(a) Operating profit is stated after charging/(crediting):

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Auditors' remuneration					
– audit	17	20	39	44	31
– non-audit services	–	–	16	70	–
Hire rentals under operating leases	25	21	57	284	140
Depreciation					
– owned assets	599	946	245	280	139
– assets held under lease and hire purchase contracts	–	–	1,708	2,364	837
Asset utilisation charge	1,011	–	–	–	–

The audit fees in the year ended 31 March 1994 were payable to KPMG whilst the fees for the period ended 14 October 1994, the two years ended 11 October 1996 and the period ended 28 March 1997 were payable to Ernst & Young.

Fees for non-audit services relating to the management buy-out of Metroline Travel from London Transport in October 1994, paid to Ernst & Young and amounting to £225,500, were capitalised under cost of investments.

(b) A reconciliation of operating profit to operating cash flow is set out below:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Operating profit	1,417	734	3,691	5,041	2,555
Depreciation charge	599	946	1,953	2,644	976
(Increase)/decrease in stocks	64	22	19	(51)	(15)
(Increase)/decrease in debtors	(287)	(994)	(391)	(1,019)	645
Increase/(decrease) in creditors	(1,329)	2,993	(6,144)	1,045	(1,115)
Net cash inflow/(outflow) from operating activities	464	3,701	(872)	7,660	3,046

(c) A reconciliation of net cash flow to movement in net debt is set out below:

	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Increase/(decrease) in cash in the period	2,338	(914)	1,644
Cash inflow from new borrowings	(10,000)	—	—
Cash inflow from sale and leaseback	(10,506)	—	—
Cash outflow from loan repayments	1,600	5,270	750
Capital element of finance lease rental payments	—	1,349	528
	<hr/>	<hr/>	<hr/>
Change in net debt	(16,568)	5,705	2,922
Loan and finance leases acquired with subsidiaries	(397)	—	—
New finance leases	(596)	(2,891)	(2,554)
Capitalisation of issue costs	255	—	—
Amortisation of issue costs	(42)	(133)	(19)
	<hr/>	<hr/>	<hr/>
Movement in net debt in period	(17,348)	2,681	349
Opening net debt	—	(17,348)	(14,667)
	<hr/>	<hr/>	<hr/>
Closing net debt	<u>(17,348)</u>	<u>(14,667)</u>	<u>(14,318)</u>

(d) An analysis of net debt is set out below:

	Opening balance £000	Cash flow £000	Acquisitions (excl. cash and overdrafts) £000	Other non-cash changes £000	Closing balance £000
<b>Year ended 13 October 1995</b>					
Cash in hand at bank	–	2,347	–	–	2,347
Overdrafts	–	(9)	–	–	(9)
	<u>–</u>	<u>2,338</u>	<u>–</u>	<u>–</u>	<u>2,338</u>
Debt due after one year	–	(7,233)	–	213	(7,020)
Debt due within one year	–	(1,167)	–	–	(1,167)
Finance leases	–	(10,506)	(397)	(596)	(11,499)
	<u>–</u>	<u>(18,906)</u>	<u>(397)</u>	<u>(383)</u>	<u>(19,686)</u>
	<u>–</u>	<u>(16,568)</u>	<u>(397)</u>	<u>(383)</u>	<u>(17,348)</u>
<b>Year ended 11 October 1996</b>					
Cash in hand at bank	2,347	(538)	–	–	1,809
Overdrafts	(9)	(376)	–	–	(385)
	<u>2,338</u>	<u>(914)</u>	<u>–</u>	<u>–</u>	<u>1,424</u>
Debt due after one year	(7,020)	4,103	–	(133)	(3,050)
Debt due within one year	(1,167)	1,167	–	–	–
Finance leases	(11,499)	1,349	–	(2,891)	(13,041)
	<u>(19,686)</u>	<u>6,619</u>	<u>–</u>	<u>(3,024)</u>	<u>(16,091)</u>
	<u>(17,348)</u>	<u>5,705</u>	<u>–</u>	<u>(3,024)</u>	<u>(14,667)</u>
<b>Period ended 28 March 1997</b>					
Cash in hand at bank	1,809	2,270	–	–	4,079
Overdrafts	(385)	(626)	–	–	(1,011)
	<u>1,424</u>	<u>1,644</u>	<u>–</u>	<u>–</u>	<u>3,068</u>
Debt due after one year	(3,050)	750	–	(19)	(2,319)
Debt due within one year	–	–	–	–	–
Finance leases	(13,041)	528	–	(2,554)	(15,067)
	<u>(16,091)</u>	<u>1,278</u>	<u>–</u>	<u>(2,573)</u>	<u>(17,386)</u>
	<u>(14,667)</u>	<u>2,922</u>	<u>–</u>	<u>(2,573)</u>	<u>(14,318)</u>

### 7.3 Directors' remuneration

Directors' remuneration was as follows:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Emoluments	216	133	277	327	155
Payments to third parties for services of a director	—	—	10	10	5
	<u>216</u>	<u>133</u>	<u>287</u>	<u>337</u>	<u>160</u>

The emoluments, excluding pension contributions, of the chairman and the highest paid director are as follows:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Chairman	—	—	82	96	44
Highest paid director	<u>64</u>	<u>39</u>	<u>82</u>	<u>96</u>	<u>44</u>

The directors received emoluments as executives including salaries and benefits in kind but excluding pension contributions as follows:

	Year ended 31 March 1994 Number	Period ended 14 October 1994 Number	Year ended 13 October 1995 Number	Year ended 11 October 1996 Number	Period ended 28 March 1997 Number
£0-£5,000	1	1	—	—	—
£5,001-£10,000	—	—	1	1	2
£10,001-£15,000	—	—	—	1	—
£25,001-£30,000	—	3	—	—	2
£30,001-£35,000	—	—	—	—	1
£35,001-£40,000	3	1	—	—	—
£40,001-£45,000	—	—	—	—	1
£60,001-£65,000	1	—	3	1	—
£65,001-£70,000	—	—	—	1	—
£70,001-£75,000	—	—	—	1	—
£85,001-£90,000	—	—	1	—	—
£95,001-£100,000	—	—	—	1	—

#### 7.4 Staff costs

Staff costs over the period are shown below:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Wages and salaries	16,335	8,670	16,108	16,549	7,490
Social security costs	1,332	697	1,281	1,359	638
Other pension costs	746	847	800	802	307
Redundancy payments	401	—	280	48	2
	<u>18,814</u>	<u>10,214</u>	<u>18,469</u>	<u>18,758</u>	<u>8,437</u>

The average weekly number of employees for each period was as follows:

	Year ended 31 March 1994	Period ended 14 October 1994	Year ended 13 October 1995	Year ended 11 October 1996	Period ended 28 March 1997
Traffic operations	932	936	1,022	1,098	1,053
Engineering and maintenance	175	141	119	97	91
Administration	54	52	41	52	51
	<u>1,161</u>	<u>1,129</u>	<u>1,182</u>	<u>1,247</u>	<u>1,195</u>

#### 7.5 Exceptional item

The exceptional charge of £524,000 in the year ended 11 October 1996, included in cost of sales, represented the directors' estimate of the permanent diminution in value of certain high capacity single decker buses.

#### 7.6 Interest receivable

The composition of interest receivable and similar income was as follows:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Bank interest	—	—	115	112	69

## 7.7 Interest payable

The composition of interest payable and similar charges was as follows:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Loan stock interest	—	—	416	366	130
Bank interest payable	—	—	565	542	23
Finance lease and hire purchase interest	—	—	1,037	1,074	648
Bank charges payable	—	—	65	37	17
Amortisation of issue costs	—	—	42	133	19
	<u>—</u>	<u>—</u>	<u>2,125</u>	<u>2,152</u>	<u>837</u>

## 7.8 Taxation

The taxation charge based on the profit on ordinary activities for each period comprises:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Corporation tax	—	35	92	1,001	454
Under provided in prior years	—	—	77	—	—
	<u>—</u>	<u>35</u>	<u>169</u>	<u>1,001</u>	<u>454</u>

The tax provision for the period ended 28 March 1997 has been calculated on the basis that this was a discrete period for tax purposes.

## 7.9 Dividends and other appropriations

Dividends and other appropriations over the period were as follows:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
<i>Dividends:</i>					
Dividends on non-equity preference shares	—	—	9	12	3
Dividends on equity ordinary shares	<u>730</u>	<u>676</u>	<u>—</u>	<u>—</u>	<u>—</u>
<i>Other appropriations:</i>					
Amortisation of redemption premium on non-equity preference shares	<u>—</u>	<u>—</u>	<u>284</u>	<u>273</u>	<u>103</u>



## 7.10 Earnings per ordinary share

As a consequence of the management buy-out in October 1994, the capital structure and the results for the period under review are not directly comparable, particularly as regards shares in issue and the financing and interest charges. These factors will impact upon the comparability of earnings per share figures.

Earnings per ordinary share for the year ended 31 March 1994 is based on the profit on ordinary activities after taxation and on the weighted average number of ordinary shares of 1,137,762 in issue of Metroline Travel.

Earnings per ordinary share for the period ended 14 October 1994 is based on the profit on ordinary activities after taxation and on the number of ordinary shares of 3,294,000 in issue of Metroline Travel.

Earnings per ordinary share for the two years ended 11 October 1996 and the period ended 28 March 1997 are based on the profit on ordinary activities after taxation, preference dividends and other appropriations on non-equity shares and on the number of ordinary shares in issue during each period.

The adjusted earnings per Ordinary Share for the two years ended 11 October 1996 and the period ended 28 March 1997 reflect the share capital reorganisation effective from Admission comprising the issue of 949 new ordinary shares of 0.1p each for every one existing ordinary share of 0.1p each and the subsequent consolidation of every 50 new ordinary shares of 0.1p each into one Ordinary Share. The accounts for the two periods ended 14 October 1994 relate to the period prior to privatisation.

## 7.11 Tangible fixed assets

	Buses £000	Freehold land £000	Freehold buildings £000	Plant and equipment £000	Total £000
<b>Cost or valuation:</b>					
At 14 October 1995	23,188	1,775	431	1,636	27,030
Additions	2,965	—	4	19	2,988
Disposals	(504)	—	(2)	(54)	(560)
Surplus on revaluation	—	905	—	—	905
At 11 October 1996	25,649	2,680	433	1,601	30,363
Additions	2,554	—	—	—	2,554
Disposals	(1,368)	—	—	(30)	(1,398)
At 28 March 1997	26,835	2,680	433	1,571	31,519
<b>Depreciation:</b>					
At 14 October 1995	11,511	—	84	1,066	12,661
Charge for the year	2,465	—	45	134	2,644
Disposals	(230)	—	(2)	(60)	(292)
At 11 October 1996	13,746	—	127	1,140	15,013
Charge for the period	908	—	21	47	976
Disposals	(1,080)	—	—	(21)	(1,101)
At 28 March 1997	13,574	—	148	1,166	14,888
<b>Net book value:</b>					
At 11 October 1996	11,903	2,680	306	461	15,350
At 28 March 1997	13,261	2,680	285	405	16,631

On 3 December 1993, the operational properties were transferred from London Buses Limited ("LBL") to a subsidiary of the Company at an existing use value. If these properties are sold for an amount greater than this value before 1 April 2004, clawback arrangements are in place and a proportion of any surplus is repayable to London Transport.

On 3 December 1993, Metroline Travel purchased assets, principally buses, to the value of £11,955,000 from its then parent undertaking, LBL. The consideration was satisfied by the allotment of shares in Metroline Travel and the assumption of a liability under an inter-company loan. From that date, depreciation was chargeable on those assets (excluding freehold land). Prior to this, assets in use by Metroline Travel were subject to an asset utilisation charge from LBL (£1,011,000 for the period from 1 April 1993 to 3 December 1993).

The freehold properties, being the aggregate of freehold land and freehold buildings, were valued at £3,500,000 by external valuers, Healey & Baker International Real Estate Consultants, as at 11 October 1996 on an existing use basis in accordance with the appraisal and valuation manual of the Royal Institute of Chartered Surveyors. After receiving advice from Healey & Baker, the Directors have assigned a value of £2,680,000 to the freehold land. The surplus in excess of the previous net book value of £1,775,000 has been recognised in the accounts. The Directors feel it would be imprudent to account for the surplus arising on the buildings at this time as they are of the belief that the existing use value of the buildings does not exceed the book value included in the accounts.

Included in the amounts for buses above are the following amounts relating to leased assets and assets acquired under hire purchase contracts:

	11 October 1996 £000	28 March 1997 £000
Cost	25,104	26,391
Accumulated depreciation	13,700	13,570
Net book value	<u>11,404</u>	<u>12,821</u>

## 7.12 Acquisitions

Goodwill on the acquisition of Metroline Travel and the acquisitions of Atlas Bus and Coach Limited and Brents Travel Group Limited (in aggregate) was as follows:

	Book value Metroline Travel £000	Book value Others £000	Fair value Adjustments £000	Fair value Total £000
Tangible fixed assets	14,148	1,135	133	15,416
Stocks	324	32	—	356
Debtors	2,688	677	—	3,365
Cash	683	(37)	—	646
Creditors: due within one year	(10,371)	(1,477)	—	(11,848)
Creditors: due after more than one year	—	(252)	—	(252)
Net assets	7,472	78	133	7,683
Goodwill arising on acquisition	6,405	346	—	6,751
	13,877	424	133	14,434
Cost				£000
Discharged by:				
Cash				13,604
Costs associated with the acquisition				830
				14,434

The only fair value adjustment relates to coaches of Brents Travel Group Limited.

## 7.13 Investments

Metroline Travel holds a 10% investment in the ordinary shares of Routemaster Reinsurance Limited ("RRL"). RRL is a Dublin based company which provides insurance arrangements for the ten former LBL subsidiaries.

As at 28 March 1997 the subsidiary undertakings, of which the share and voting rights were 100% owned by the Company, were registered in England and Wales and comprised:

Company	Nature of business
Metroline Travel Limited	Bus operator
Atlas Bus and Coach Limited	Dormant
Brents Travel Group Limited	Dormant
Brents Luxury Coach Hire Limited*	Coach hire and operator of coach tours
Brents Travel Services Limited*	Dormant

\* shares are held by Brents Travel Group Limited

## 7.14 Stocks

An analysis of stocks is set out below:

	11 October 1996 £000	28 March 1997 £000
Bus maintenance stocks	247	251
Fuel and lubricants	141	152
	388	403

## 7.15 Debtors

An analysis of debtors is set out below:

	11 October 1996 £000	28 March 1997 £000
Trade debtors	3,207	3,217
Value added tax	783	252
Other debtors	189	128
Prepayments and accrued income	596	533
	<u>4,775</u>	<u>4,130</u>

## 7.16 Analysis of changes in cash

An analysis of cash and changes in cash is set out below:

	31 March 1994 £000	14 October 1994 £000	13 October 1995 £000	11 October 1996 £000	28 March 1997 £000
Cash at bank and in hand	205	683	2,347	1,809	4,079
Bank overdraft	(1)	–	(9)	(385)	(1,011)
	<u>204</u>	<u>683</u>	<u>2,338</u>	<u>1,424</u>	<u>3,068</u>

The bank overdraft is guaranteed under a composite cross guarantee structure entered into with the Group's bankers to include the Company and all its trading subsidiaries. The bank accrues interest and charges on the net balance held or owed.

	31 March 1994 £000	14 October 1994 £000	13 October 1995 £000	11 October 1996 £000	28 March 1997 £000
Movement:					
Opening net cash	184	204	683	2,338	1,424
Period inflow/(outflow)	20	479	2,338	(914)	1,644
Acquisition adjustment	–	–	(683)	–	–
Closing net cash	<u>204</u>	<u>683</u>	<u>2,338</u>	<u>1,424</u>	<u>3,068</u>

## 7.17 Creditors: amounts falling due within one year

An analysis of creditors is set out below:

	11 October 1996 £000	28 March 1997 £000
Obligations under finance leases and hire purchase contracts	1,817	1,878
Bank overdraft	385	1,011
Trade creditors	1,482	1,141
Current corporation tax	1,070	1,524
Other taxation and social security	599	391
Other creditors	646	488
Accruals and deferred income	4,276	3,896
	<u>10,275</u>	<u>10,329</u>

## 7.18 Creditors: amounts falling due after more than one year

These comprised:

	11 October 1996 £000	28 March 1997 £000
Loan notes	2,380	2,380
Bank loans	750	—
Obligations under finance leases and hire purchase contracts	11,224	13,189
	<hr/>	<hr/>
	14,354	15,569
Less: unamortised issue costs	(80)	(61)
	<hr/>	<hr/>
	14,274	15,508
	<hr/>	<hr/>

The subordinated unsecured £1 loan notes 2000/2002 of £3,400,000 were issued by the Company on 7 October 1994. The loan notes carry interest at 12% per annum until redemption, payable quarterly. Loan note repayments are in conjunction with the redemption of the preference shares. During the year ended 11 October 1996 a repayment of £1,020,000 was made.

Bank loans represent the remaining balance of a £6,600,000 six year bank term loan at a rate of interest determined by the bank to be the aggregate of a margin, LIBOR and the mandatory liquid asset costs. Repayments were made of £1,600,000 during the year ended 13 October 1995, £4,250,000 during the year ended 11 October 1996 and £750,000 during the period ended 28 March 1997.

## 7.19 Loans

The loans due at 11 October 1996 and 28 March 1997 are analysed as follows:

	11 October 1996 £000	28 March 1997 £000
Not wholly repayable within 5 years	2,380	2,380
Wholly repayable within 5 years	750	—
	<hr/>	<hr/>
	3,130	2,380
Less: amounts due within one year	—	—
	<hr/>	<hr/>
Amounts due after more than one year	3,130	2,380
	<hr/>	<hr/>

## 7.20 Obligations under finance leases and hire purchase contracts

Annual commitments for future rental payments under finance leases and hire purchase contracts were as follows:

	11 October 1996 £000	28 March 1997 £000
Amounts payable:		
within one year	1,817	1,878
within two to five years	9,934	11,094
more than five years	1,290	2,095
	<u>13,041</u>	<u>15,067</u>

An analysis of changes in finance leases and hire purchase contracts over the period is set out in note 7.2(d).

## 7.21 Provisions for liabilities and charges

No provision for deferred taxation is provided as no liabilities are expected to crystallise within the foreseeable future. Deferred taxation not provided is as follows:

	11 October 1996 £000	28 March 1997 £000
Capital allowances in advance of depreciation	870	1,070
Other timing differences	(20)	-
	<u>850</u>	<u>1,070</u>

## 7.22 Share capital

The authorised and allotted, called up and fully paid share capital of the Company comprised:

	11 October 1996		28 March 1997	
	No.	£	No.	£
<b>Authorised</b>				
A ordinary shares of 0.1p each	526,000	526	526,000	526
B ordinary shares of 0.1p each	175,000	175	175,000	175
C ordinary shares of 0.2p each	276,000	552	276,000	552
D ordinary shares of 0.1p each	23,000	23	23,000	23
Deferred shares of 0.1p each – non equity	5,000	5	5,000	5
Preference shares of £1 each – non-equity	100,000	100,000	100,000	100,000
Unclassified shares of 0.1p each	50,000	50	50,000	50
		<u>101,331</u>		<u>101,331</u>

	11 October 1996		28 March 1997	
	No.	£	No.	£
<b>Allotted, called up and fully paid</b>				
A ordinary shares of 0.1p each	526,000	526	526,000	526
B ordinary shares of 0.1p each	175,000	175	175,000	175
C ordinary shares of 0.2p each	276,000	552	276,000	552
D ordinary shares of 0.1p each	23,000	23	23,000	23
Deferred shares of 0.1p each – non-equity	5,000	5	5,000	5
Preference shares of £1 each – non-equity	70,000	70,000	70,000	70,000
		<u>71,281</u>		<u>71,281</u>

The preference shares confer upon the holders (as a class) the right to priority payment in the event of a winding up of the Company and the right in priority to any payment by way of a dividend to the holders of other shares to receive a preferential dividend. The gross preference dividend is an amount equal to 12% per annum payable by four equal instalments. Interest is payable on any overdue amounts. The preference shares are due to be redeemed in tranches on 7 October 2000, 2001 and 2002 at a premium. Preference shareholders have no right to vote unless the preference dividend or any amount due on the subordinated loan stock is in arrears.

On 15 March 1996, 15,000 preference shares were redeemed at a premium of £4.1256 per share for total consideration of £76,884. On 13 September 1996, a further 15,000 preference shares were redeemed at a premium of £5.6335 per share for total consideration of £99,502.

B ordinary shares rank ahead of other shares (except preference shares) to receive a participating dividend of an amount equal to the relevant percentage of the net profit for the financial year as set out in the Articles of Association, but not before 31 March 1999.

The balance of any profit after redemption of the preference shares and the payment of the participating dividend and any arrears thereof, shall be distributed amongst the holders of the A ordinary shares, the B ordinary shares, the C ordinary shares and the D ordinary shares for which the same constitute one class of stock. The deferred shares and unclassified shares have no right to income nor have any voting rights. In the event of a sale or listing taking place certain conversion rights exist affecting the relative value of the B ordinary shares and the C ordinary shares.

The components of the changes in share capital were as follows:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
Opening share capital	1	3,294	3,294	101	71
Acquisition adjustment	–	–	(3,294)	–	–
Share capital issued	3,293	–	101	–	–
Preference share capital redeemed	–	–	–	(30)	–
Closing share capital	<u>3,294</u>	<u>3,294</u>	<u>101</u>	<u>71</u>	<u>71</u>

## 7.23 Reconciliation of movements in shareholders' funds

Movements in shareholders' funds were as follows:

	Year ended 31 March	Period ended 14 October	Year ended 13 October	Year ended 11 October	Period ended 28 March
	1994 £000	1994 £000	1995 £000	1996 £000	1997 £000
Opening shareholders' funds	(693)	7,449	7,472	(4,852)	(2,127)
Profit after tax for the period	1,408	699	1,509	2,008	1,636
Ordinary dividends	(730)	(676)	—	—	—
Preference dividends	—	—	(9)	(12)	(3)
Share capital issued	3,293	—	101	—	—
Share premium	3,293	—	298	—	—
Revaluation reserve	862	(83)	—	905	—
Additional depreciation on revaluation	16	83	—	—	—
Preference share capital redeemed	—	—	—	(176)	—
<i>Acquisition adjustments</i>					
Share capital	—	—	(3,294)	—	—
Share premium	—	—	(3,293)	—	—
Revaluation reserve	—	—	(779)	—	—
Goodwill written off	—	—	(6,751)	—	—
Pre-acquisition profit	—	—	(106)	—	—
Closing shareholders' funds	<u>7,449</u>	<u>7,472</u>	<u>(4,852)</u>	<u>(2,127)</u>	<u>(494)</u>



## 7.24 Movement on reserves

Movements on reserves were as follows:

	Year ended 31 March 1994 £000	Period ended 14 October 1994 £000	Year ended 13 October 1995 £000	Year ended 11 October 1996 £000	Period ended 28 March 1997 £000
<i>Share premium account</i>					
Opening share premium	—	3,293	3,293	298	298
Share premium	3,293	—	298	—	—
Acquisition adjustment	—	—	(3,293)	—	—
Closing share premium	<u>3,293</u>	<u>3,293</u>	<u>298</u>	<u>298</u>	<u>298</u>
<i>Revaluation reserve</i>					
Opening revaluation reserve	—	862	779	—	905
Revaluation of fixed assets	878	—	—	905	—
Additional depreciation on revaluation	(16)	(83)	—	—	—
Acquisition adjustment	—	—	(779)	—	—
Closing revaluation reserve	<u>862</u>	<u>779</u>	<u>—</u>	<u>905</u>	<u>905</u>
<i>Capital redemption reserve</i>					
Opening capital redemption reserve	—	—	—	—	30
Capital redemption reserve	—	—	—	30	—
Closing capital redemption reserve	<u>—</u>	<u>—</u>	<u>—</u>	<u>30</u>	<u>30</u>
<i>Profit and loss account</i>					
Opening profit and loss account	(694)	—	106	(5,251)	(3,431)
Additional depreciation on revaluation	16	83	—	—	—
Acquisition adjustment	—	—	(106)	—	—
Profit after tax for the period	1,408	699	1,509	2,008	1,636
Dividends	(730)	(676)	(9)	(12)	(3)
Preference share capital redeemed	—	—	—	(146)	—
Capital redemption reserve	—	—	—	(30)	—
Goodwill write-of	—	—	(6,751)	—	—
Closing profit and loss account	<u>—</u>	<u>106</u>	<u>(5,251)</u>	<u>(3,431)</u>	<u>(1,798)</u>

## 7.25 Capital commitments

Amounts contracted for but not provided in the accounts amounted to £5.2 million at 28 March 1997 (£2.6 million at 11 October 1996).

## 7.26 Pension commitments

The Company operates a defined benefit pension scheme for employees of Metroline Travel who were employed prior to 7 October 1994. The scheme is now closed to new members. Members contribute at a rate of 5 per cent. of pensionable pay and the Company is contributing at a rate of 9.9 per cent. of pensionable pay until the next actuarial valuation, which is expected to be completed by October 1997.

The contributions are determined by an independent qualified actuary making certain assumptions. The most important assumptions made since 7 October 1994 are that the annual

rate of investment return will be 9.0 per cent., the annual rate of salary increase will be 7.0 per cent. and the annual rate of pension increases (on non-GMP benefits) will be 4.5 per cent.

The amount owed to the scheme at 28 March 1997 was £68,000 (£146,000 at 11 October 1996).

The Company also operates a matched money purchase pension scheme for new entrants after one year's service.

## 7.27 Other commitments

The annual commitments under non-cancellable operating leases are as follows:

	11 October 1996		28 March 1997	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£000	£000	£000	£000
Operating leases which expire:				
within one year	182	51	132	35
within two to five years	99	193	99	214
over five years	—	—	60	—
	<u>281</u>	<u>244</u>	<u>291</u>	<u>249</u>

## 7.28 Contingent liabilities

On 7 October 1994, Metroline Travel committed itself to a sale and leaseback (under a hire contract) of its fleet of buses. On that date the subsidiary granted a cross guarantee and indemnity in favour of Société Générale (in its capacity as security trustee for itself and Soc Gen Lease Limited) guaranteeing all group secured liabilities which, at 28 March 1997 were £9.2 million (11 October 1996 - £10.2 million). A debenture was also granted on the same date by the subsidiary, as a fixed and floating security for the payment and discharge for all or any obligations to any of the secured parties.

## 7.29 Post balance sheet events

Subsequent to 28 March 1997, the Company fulfilled its obligations under the terms of the Investor Agreement dated 7 October 1994 between the shareholders of the Company, and completed the share option arrangements for directors and executives of the Company. Under the scheme, options over 39,800 and 10,200 D ordinary shares were granted to the Directors and executives respectively, exercisable at the market value of the shares at 7 October 1994, being 36 pence per share. The options granted to the Directors were exercised on 15 July 1997. The options granted to the executives are exercisable at the earlier of 31 March 1999 and the date of the publication of the accounts for the year ending 9 October 1998.

Yours faithfully

Ernst & Young

**PART 3**  
**PROFIT FORECAST AND ASSOCIATED LETTERS**

The Directors forecast that, on the bases and assumptions set out below and in the absence of unforeseen circumstances, profit on ordinary activities before taxation, profit after taxation and earnings per Ordinary Share, for the year ending 10 October 1997 will be not less than shown below:

	<i>Forecast</i>
Profit on ordinary activities before taxation	£4.00 million
Profit on ordinary activities after taxation	£3.45 million
Earnings per Ordinary Share	16.7p

**Bases and assumptions**

The Directors' profit forecast for the year ending 10 October 1997 has been prepared in accordance with the accounting policies normally applied by the Group which are described in section 2 of the accountants' report set out in Part 2 of this document. The profit forecast has been based on the audited accounts of the Group for the 24 weeks ended 28 March 1997 and the Directors' forecast for the remaining 28 weeks of the year, taking into account the following principal assumptions:

- (a) there will be no event outside the control of the Directors causing significant disruption to the Group's operations, customers or suppliers;
- (b) interest rates and the basis and rates of taxation, both direct and indirect, will not change materially; and
- (c) there will be no other material changes in the economic or political environments in which the Group operates.



# GRANVILLE

GRANVILLE & CO.

Mint House · 77 Mansell Street · London E1 8AF  
Telephone 0171 488 1212 Fax 0171 702 3134

The Directors  
Metroline plc  
118-122 College Road  
Harrow  
Middlesex HA1 1DB

16 July 1997

Dear Sirs

We have discussed with the Directors of Metroline plc (the "Company") the profit forecast of the Company and its subsidiary undertakings for the year ending 10 October 1997 set out on page 43 of the prospectus of the Company dated 16 July 1997 together with the bases and assumptions upon which the profit forecast is made. We have also discussed the accounting policies and calculations for the profit forecast with Ernst & Young and have considered their letter dated 16 July 1997 addressed to yourselves and ourselves on this matter.

We consider that the profit forecast, for which you, as Directors of the Company are solely responsible, has been prepared after due and careful enquiry.

Yours faithfully  
For and on behalf of  
Granville & Co.

**Jennifer A Pantling**  
*Director*

The Directors  
Metroline plc  
118-122 College Road  
Harrow  
Middlesex HA1 1DB

16 July 1997

The Directors  
Granville & Co.  
Mint House  
77 Mansell Street  
London E1 8AF

Dear Sirs

We have reviewed the accounting policies and calculations for the profit forecast of Metroline plc and its subsidiaries ("the Group") for the year ending 10 October 1997, for which the directors of Metroline plc are solely responsible, set out on page 43 of the prospectus dated 16 July 1997.

The profit forecast, which has been prepared under the historical cost convention, modified for the revaluation of certain fixed assets, includes the audited results of the Group for the 24 weeks ended 28 March 1997 and the forecast for the 28 weeks ending 10 October 1997.

In our opinion the profit forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of Metroline plc and has been presented on a basis consistent with the accounting policies normally adopted by the Group.

Yours faithfully

Ernst & Young

## PART 4

### PRO FORMA CONSOLIDATED NET ASSETS

Set out below is a *pro forma* statement of consolidated net assets of the Group at 28 March 1997. The *pro forma* statement of consolidated net assets is provided for illustrative purposes only and, because of its nature, it cannot give a complete picture of the financial position of the Group.

The *pro forma* statement of consolidated net assets is based the audited consolidated balance sheet of the Group as at 28 March 1997, as set out in Part 2 of this document, and has been adjusted to reflect the receipt of proceeds and repayment of debt as set out in the notes below.

The unaudited statement of *pro forma* consolidated net assets of the Group at 28 March 1997 is set out below:

	Notes	Historical £000	Adjustments £000	Pro forma £000
<b>Fixed assets</b>				
Tangible assets		16,631	—	16,631
Investments		100	—	100
		<hr/>	<hr/>	<hr/>
		16,731	—	16,731
		<hr/>	<hr/>	<hr/>
<b>Current assets</b>				
Stocks		403	—	403
Debtors	(1)	4,130	322	4,452
Cash at bank and in hand	(2)	4,079	(1,305)	2,774
		<hr/>	<hr/>	<hr/>
		8,612	(983)	7,629
<b>Creditors: amounts falling due within one year</b>		10,329	—	10,329
		<hr/>	<hr/>	<hr/>
<b>Net current liabilities</b>		(1,717)	(983)	(2,700)
		<hr/>	<hr/>	<hr/>
<b>Total assets less current liabilities</b>		15,014	(983)	14,031
<b>Creditors: amounts falling due after more than one year</b>	(3)	15,508	(2,380)	13,128
		<hr/>	<hr/>	<hr/>
<b>Net assets</b>		(494)	1,397	903
		<hr/>	<hr/>	<hr/>

#### Notes:

- The adjustment to debtors reflects the amounts due to the Company in respect of loans to employees of approximately £322,000 for the purchase of 186,101 Ordinary Shares in the placing out of a total of approximately 569,000 Ordinary Shares subscribed for by employees for a total consideration of £985,000.
- The adjustment to cash reflects:

	£'000
proceeds from the issue of 1,734,104 new shares at the Placing Price,	
less loans to employees of £322,000	2,678
the redemption by the Company of 70,000 £1 preference shares	
(including the redemption premium)	(653)
payment of estimated expenses relating to the Placing	(950)
repayment of the outstanding subordinated unsecured loan notes	(2,380)
	<hr/>
	(1,305)
- The adjustment to the creditors falling due after more than one year reflects the repayment of the outstanding £2.38 million of subordinated unsecured £1 loan notes.

## PART 5 ADDITIONAL INFORMATION

### 1 Incorporation

- 1.1 The Company, which is the holding company of the Group, was incorporated and registered in England and Wales on 11 June 1993 under the name of Gravitas 1058 Limited with registered number 2826284 as a private company limited by shares under the Act. The Company changed its name on 15 December 1994 to Metroline Holdings Limited. The Company changed its name to Metroline plc and was re-registered as a public limited company on 30 June 1997. The principal legislation under which the Company operates is the Act.
- 1.2 The Company's registered office and principal place of business is 118-122 College Road, Harrow, Middlesex HA1 1DB.

### 2 Share Capital

- 2.1 On incorporation, the authorised share capital of the Company was £100 divided into 100 ordinary shares of £1 each, of which two shares were issued at par to the subscribers to the Memorandum of Association.
- 2.2 Since the Company's incorporation, there have been the following changes in the authorised and issued share capital of the Company:

2.2.1 On 27 September 1993 three ordinary shares of £1 each were allotted fully paid up, one to each of D G O'Farrell, G Tennant and M Smith.

2.2.2 On 7 October 1994 the share capital of the Company was increased from £100 to £101,331.

On the same date, the share capital of the Company was reorganised into 526,000 A ordinary shares of 0.1p each, 175,000 B ordinary shares of 0.1p each, 276,000 C ordinary shares of 0.2p each, 23,000 D ordinary shares of 0.1p each, 50,000 unclassified shares of 0.1p each, 5,000 deferred shares of 0.1p each and 100,000 preference shares of £1 each.

As at 7 October 1994, after the increase in the share capital, all of the A, B, C and D ordinary shares, all of the deferred shares and 100,000 of the preference shares were in issue and fully paid (or credited as fully paid), being a total issued share capital of £101,281.

2.2.3 On each of 15 March 1996 and 13 September 1996 the Company redeemed 15,000 preference shares of £1 each.

2.2.4 On 25 June 1997 the 50,000 unclassified shares of 0.1p each were reclassified as D ordinary shares of 0.1p each.

2.2.5 On 15 July 1997 39,800 D ordinary shares were issued pursuant to the exercise of options granted under The Metroline 1994 Unapproved Share Option Scheme.

2.2.6 On Admission the B, C and D ordinary shares in the share capital of the Company will convert into 513,800 A ordinary shares and 276,000 deferred shares and all the outstanding preference shares of £1 each in the share capital of the Company will be redeemed, pursuant to article 8 of the Company's articles of association.

2.2.7 On 26 June 1997, the Company, by special resolution, conditional upon Admission becoming effective not later than 31 December 1997:

- (i) authorised the Directors to enter into a contract for the purchase by the Company out of its distributable reserves of 281,000 fully paid deferred shares of 0.1p each in the share capital of the Company for an aggregate consideration of £281;-
- (ii) redesignated each of the existing issued A ordinary shares of 0.1p each in the share capital of the Company as one ordinary share of 0.1p in the share capital of the Company;
- (iii) redesignated each of the authorised but unissued shares of 0.1p each in the share capital of the Company as one ordinary share of 0.1p in the share capital of the Company;
- (iv) disapplied article 22 of the Company's articles of association in relation to the issue of new shares;
- (v) increased the authorised capital of the Company to £1,500,000 by the creation of 1,389,669,000 new ordinary shares of 0.1p each ranking *pari passu* with the existing ordinary shares of 0.1p each;
- (vi) authorised the Directors in accordance with section 80 of the Act to capitalise the sum of up to £996,450 standing to the credit of the Company's distributable reserves and to appropriate and apply that amount in paying up in full at par up to 996,450,000 ordinary shares of 0.1p each to be allotted to holders of ordinary shares of 0.1p each in the share capital of the Company on redesignation pursuant to paragraph (ii) above, on the basis of 949 new ordinary shares of 0.1p each for every one ordinary share of 0.1p each held by them, such shares to rank *pari passu* with the existing ordinary shares of 0.1p each provided that such authority expire on the date of the next annual general meeting of the Company after the passing of this resolution;
- (vii) consolidated every 50 ordinary shares of 0.1p each in the share capital of the Company, being all the shares in issue and all the authorised but unissued shares in the Company, into one Ordinary Share of 5p in the share capital of the Company;
- (viii) generally and unconditionally authorised the Directors in accordance with section 80 of the Act to exercise all the powers of the Company to allot Ordinary Shares up to an aggregate nominal value of £472,525, such authority to expire on the date of the next annual general meeting of the Company except that the authority shall extend to the allotment at any time of any such shares pursuant to an offer or agreement which is made prior to the date of such expiry;
- (ix) empowered the Directors pursuant to section 95 of the Act to allot Ordinary Shares for cash pursuant to the authority referred to in paragraph (viii) above as if section 89(1) of the Act did not apply to any such allotment, such power to be limited to:
  - (a) the placing by Granville & Co. of Ordinary Shares up to an aggregate nominal value of £250,000 in connection with the Admission;



- (b) the allotment of Ordinary Shares to certain employees in consideration of their releasing the Company from its repayment obligations to such employees up to an aggregate nominal value of £15,300; and
- (c) the allotment (otherwise than as referred to in sub-paragraphs (a) or (b) above) of Ordinary Shares up to an aggregate nominal value of not more than £54,500

such authority to expire on the date of the next annual general meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require Ordinary Shares to be allotted after such expiry, and the Directors may allot Ordinary Shares pursuant to such offer or agreement as if the power conferred had not expired.

2.3 On 15 July 1997, by resolutions of the Board conditional on Admission:

- (i) the Board resolved to enter into a contract for the purchase by the Company out of its distributable reserves of 281,000 fully paid deferred shares of 0.1p each in the share capital of the Company for an aggregate consideration of £281;
- (ii) the sum of £986,770.20 standing to the credit of the Company's distributable reserves was appropriated and applied in paying up in full at par 986,770,200 ordinary shares of 0.1p each for allotment to holders of ordinary shares of 0.1p each in the share capital of the Company, on the basis of 949 new ordinary shares of 0.1p each for every one ordinary share of 0.1p each held by them;
- (iii) the Board resolved to allot the unissued Ordinary Shares to be issued pursuant to the Placing.

2.4 Immediately following Admission, the authorised share capital of the Company will be £1,500,000 divided into 30,000,000 Ordinary Shares, of which 21,490,304 Ordinary Shares have been issued or will, pursuant to the Placing, be issued, and are, or will be, fully paid or credited as fully paid. There will remain authorised but unissued £425,485 of share capital, consisting of 8,509,696 Ordinary Shares representing approximately 39.6 per cent. of the enlarged issued share capital of the Company, which the Directors will be authorised to allot pursuant to the authorities referred to in paragraph 2.2.7 above.

2.5 On 25 June 1997 options were granted over 50,000 D ordinary shares, pursuant to The Metroline 1994 Share Option Scheme to the Directors and senior employees of the Group, of which 10,200 will remain unexercised following Admission. The exercise price for each D ordinary share is 36 pence and the options remaining unexercised on Admission can be exercised at any time following 31 March 1999 or, if earlier, the publication of the Company's 1998 accounts.

2.6 Save as disclosed in this paragraph 2, there have been no changes in the amount of the issued share capital of the Company and since 1 July 1994 there has been no material change in the amount of the issued share capital of any of its subsidiaries (other than intra-Group issues by wholly-owned subsidiaries).

2.7 No discounts or other special terms have been granted by the Company in connection with the issue or sale of any share capital of the Company and no discounts or other

special terms have been granted by any of its subsidiaries in connection with the issue or sale of any share capital of any of its subsidiaries.

- 2.8 The provisions of section 89(1) of the Act which, to the extent not disapplied pursuant to sections 95 of the Act, confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash, apply to the authorised but unissued share capital of the Company, except to the extent disapplied by the resolutions referred to in paragraph 2.2.7 above.
- 2.9 Save as disclosed in paragraphs 2.5 and 6.5.9, no share or loan capital of the Company or any of its subsidiaries is under option or has been agreed, conditionally or unconditionally, to be put under option.
- 2.10 The Ordinary Shares to be issued by the Company which are the subject of the Placing are being issued at a price of 173p per share, representing a premium of 168p per share over the nominal value of 5p each.
- 2.11 The Ordinary Shares are in registered form.

### 3 Memorandum and Articles of Association

- 3.1 The Memorandum of Association of the Company provides that the Company's principal object is to carry on business as a general commercial company. The objects of the Company are set out in full in Clause 3 of the Memorandum of Association which is available for inspection at the address specified in paragraph 16 below.
- 3.2 The Articles of Association of the Company (the "Articles") contain provisions, inter alia, to the following effect:

#### 3.2.1 *Dividends*

Subject to the provisions of the Statutes (as defined in the Articles) and to any special rights attaching to any shares (of which there are none at present), the holders of the Ordinary Shares are entitled, *pari passu* amongst themselves, to the profits of the Company available for distribution and resolved to be distributed according to the amounts paid up on the Ordinary Shares held by them, provided that no dividend shall be declared in excess of the amount recommended by the directors. Interim dividends may be paid if profits are available for distribution and if the directors so resolve. No dividends payable in respect of an Ordinary Share shall bear interest. The directors may, with the prior sanction of an ordinary resolution of the Company (such authority to expire not later than the fifth anniversary of the date on which the resolution is passed), offer the holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid, instead of cash in respect of all or part of a dividend. The directors may, pursuant to the provisions of the Articles relating to disclosure of interests, withhold dividends or other monies payable in respect of shares which are the subject of a disclosure notice under section 212 of the Act and which represent 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days and the member holding such shares shall not be entitled to elect in the case of a scrip dividend to receive shares instead of that dividend.

#### 3.2.2 *Return of capital*

- (i) On a winding-up, subject to the rights of any shares which may be issued on special terms or conditions, any surplus assets remaining

after payment of all creditors shall be divided among the members in proportion to the capital which at the commencement of the winding up is paid up on the shares held by them respectively.

- (ii) If the Company is wound up (whether the liquidation is voluntary, under supervision or by the court), the liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Statutes, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members. The liquidator may, with the same sanction, vest the whole or any part of such assets in trustees on such trusts for the benefit of the contributories as he with the same sanction shall determine, but no member shall be compelled to accept any shares or other securities on which there is a liability.

### 3.2.3 *Voting*

Subject to the restrictions referred to in this paragraph 3 and subject to any special rights or restrictions as to voting attached to any class of shares (of which there are none at present), on a show of hands every holder of Ordinary Shares who is present in person shall have one vote and on a poll every such holder who is present in person or by proxy shall have one vote for each Ordinary Share held by him. A corporate member may, by resolution of its directors or other governing body, authorise a person to act as its representative at general meetings and such person shall be entitled to exercise such powers as the corporate member could exercise if it were an individual member.

### 3.2.4 *Restrictions on voting*

- (i) A member of the Company shall not be entitled to vote (either personally or by proxy) at any general meeting of the Company unless all amounts payable by him in respect of shares in the Company have been paid.
- (ii) A member of the Company shall not, if the directors so determine, be entitled to attend or vote or to exercise rights of membership as aforesaid, if he or any other person appearing to be interested in such shares has failed to comply with a notice given under section 212 of the Act within 14 days, in a case where the shares in question represent at least 0.25 per cent. of their class, or within 28 days in any other case from the date of service of such notice. The restrictions will continue until the information required by the notice is supplied to the Company or until the shares in question are transferred or sold in the circumstances set out in the Articles.

### 3.2.5 *Untraced shareholders*

The Company may sell any share (including any further share issued in respect of that share) if, for a period of 12 years during which at least three dividends (whether interim or final) in respect of such share have been payable, no cheque or warrant payable in respect of the share has been

cashed and no communication in respect of the share has been received by the Company from the relevant member (or other person entitled to the share). The Company must advertise its intention to sell such share in both a national daily newspaper and in a newspaper circulating in the area of the last known address at which service of notices may be effected. Notice of the intention to sell must also be given to the London Stock Exchange. If no communication in respect of the share is received within a further three months the Company may sell the share by instructing a member of the London Stock Exchange to sell it. The Company shall be indebted to the former member or other person previously entitled to the relevant share for an amount equal to the net proceeds of sale, but no trust shall be created and no interest shall be payable in respect of such sum.

3.2.6 *Non-United Kingdom shareholders*

There are no limitations in the Memorandum of Association or the Articles on the rights of members whose registered address is not within the United Kingdom or the Republic of Ireland to hold or exercise voting rights attached to shares. However, such shareholders are not entitled to receive notices of general meetings unless they have given to the Company an address in the United Kingdom to which such notices may be sent.

3.2.7 *Record dates and unclaimed dividends*

The Company or its directors may (subject to the provisions of the Statutes) fix any date as the record date on which registered holders of shares shall be entitled to receipt of any dividend, provided that such record date is no later than the date on which the dividend is paid or made. Any dividend unclaimed after a period of 12 years from the date when it became due for payment shall be forfeited and shall revert to the Company.

3.2.8 *Variation of rights*

Subject to the provisions of the Statutes, any rights attaching to any class of share in the Company may be varied or abrogated with the written consent of the holders of not less than three-quarters in nominal value of the issued shares of the class, or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the relevant class. The quorum for any such separate general meeting shall be persons holding, or representing by proxy, not less than one-third in nominal value of the issued shares of the relevant class.

3.2.9 *Transfer of shares*

All transfers of shares must be effected by written instrument in any usual form, in accordance with the Regulations (as defined in the Articles), or in any other form or in accordance with any other arrangements acceptable to the directors. Any instrument of transfer must be executed by or on behalf of the transferor and, in the case of a partly paid share, the transferee. The transferor is deemed to remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect of them. The directors have a discretion to refuse to register a transfer of any share whether certificated or not which is not fully paid, (provided that this does not prevent dealings in the shares from taking place on the London

Stock Exchange on an open and proper basis), without giving a reason but must provide the transferee with a notice of the refusal within two months from the date on which the transfer was lodged or, in respect of uncertificated shares, the date on which the operator instruction was received. The directors may also decline to register any transfer whether certificated or not unless:

- (i) it is in respect of only one class of share;
- (ii) it is in favour of not more than four transferees jointly; and
- (iii) it is delivered for registration to the registered office of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised clearing house or investment exchange where a share certificate has not been issued) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor.

The directors may, pursuant to the provisions of the Articles relating to disclosure of interests, decline to register a transfer in respect of shares which are the subject of a disclosure under section 212 of the Act, which represent 0.25 per cent. or more in nominal value of the issued shares of their class and in respect of which the required information has not been received by the Company within 14 days.

#### 3.2.10 *Alteration of capital and purchase of own shares*

The Company may alter its share capital as follows:

- (i) by ordinary resolution, it may increase its share capital, consolidate and divide all or any of its shares into shares of larger amount, sub-divide (subject to the provisions of the Statutes) all or any of its shares into shares of smaller amount and cancel any shares not taken or agreed to be taken by any person; and
- (ii) by special resolution, and subject to the provisions of the Statutes, it may reduce its share capital, any capital redemption reserve or any share premium account in any manner.

Subject to the provisions of the Statutes and with the sanction of an extraordinary resolution of the holders of any class of shares carrying rights to convert into equity share capital of the Company, the Company may purchase any of its own shares (including redeemable shares).

#### 3.2.11 *Directors*

- (i) Minimum and maximum number

Unless altered by ordinary resolution of the Company, the minimum number of directors of the Company is two and the maximum number is 12.

- (ii) Fees to directors

The aggregate fees paid to any director for his services in the office of director shall not exceed £50,000 per annum (subject to upwards

adjustment in line with any percentage increase in the Retail Price Index) or such higher amount as may from time to time be determined by ordinary resolution of the Company. Subject to this limit, each director shall be paid a fee (which shall be deemed to accrue from day to day) at such rate as may from time to time be determined by the directors. Any such fee shall be in addition to any remuneration payable to a director as the Board may in its discretion determine by reason of the appointment of the director to any executive office or payable to a director who performs services which, in the opinion of the directors, go beyond the ordinary duties of a director. The directors shall be entitled to be repaid all reasonable travel, hotel and other expenses properly incurred in the performance of their duties as directors, including expenses incurred in attending meetings of the Board, committees of the Board, general meetings or separate meetings of the holders of any class of shares or debentures of the Company.

(iii) Appointment, retirement, removal and shareholding qualification

At each annual general meeting of the Company one-third of the directors for the time being (or, if their number is not three or a multiple of three, the number nearest to but not more than one-third) shall retire from office by rotation. No person shall be capable of being appointed a director after he has attained the age of 70 and a director shall vacate his office at the conclusion of the annual general meeting next after he attains the age of 75.

A director is not required to hold any shares in the Company. A director who is not a member shall nevertheless be entitled to attend and speak at shareholders' meetings.

3.2.12 *Directors' interests*

A director shall not vote or be counted in a quorum at a meeting in relation to any resolution of the Board concerning any contract or arrangement in which he is to his knowledge directly or indirectly materially interested (including by virtue of the interests of persons connected with him).

The prohibition will not apply to any of the following:

- (i) any arrangement for giving him any guarantee, security or indemnity in respect of money lent or obligations undertaken by him at the request of or for the benefit of the Company (or any of its subsidiary undertakings); or
- (ii) any arrangement for giving a third party any guarantee, security or indemnity in respect of a debt or obligation of the Company (or any of its subsidiary undertakings) for which he has assumed responsibility, in whole or in part, under a guarantee or an indemnity or by the giving of security; or
- (iii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of shares, debentures or other securities or in the underwriting or sub-underwriting of which he is to participate; or

- (iv) any proposal concerning any other body corporate in which he is interested, directly or indirectly and whether as an officer or shareholder or otherwise, provided that he (together with persons connected with him within the meaning of section 346 of the Act) does not have an interest (as that term is used in Part VI of the Act) in 1 per cent. or more of the issued equity share capital of any class of such body corporate (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for these purposes to be a material interest in all circumstances); or
- (v) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which does not award the Director any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (vi) any proposal concerning any insurance which the Company proposes to maintain or purchase for the benefit of directors or for the benefit of persons who include directors.

Subject to the provisions of the Statutes, no director is disqualified by his office from contracting with the Company nor is any contract or arrangement entered into with or on behalf of the Company in which the director is in any way interested liable to be avoided, nor is any director so contracting or being so interested liable to account to the Company for any profit realised thereby, but the nature of his interest must be declared by the director at a meeting of the Board in accordance with the Statutes.

A director may not vote or be counted in the quorum in relation to any resolution of the Board concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested (including fixing or varying the terms of such appointment or its termination).

Where proposals are under consideration concerning the appointment (including fixing or varying the terms of appointment or its termination) of two or more directors, such proposal may be divided and a separate resolution considered in relation to each director. In each case, each director (if not otherwise debarred from voting) is entitled to vote and be counted in the quorum in respect of each resolution except that concerning his own appointment.

#### 3.2.13 *Pensions and benefits*

The Board or any Committee of the Board may exercise all the powers of the Company to provide benefits, either by payment of gratuities or pensions or by insurance or otherwise for any person who is or who has at any time been a director of the Company (and for any relations or dependants).

#### 3.2.14 *Borrowing powers*

The directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation

of the Company or of any third party. The directors shall restrict the borrowing of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to any subsidiary so as to secure (as regards subsidiaries by such exercise as they can secure) that the aggregate amount at any one time remaining undischarged in respect of all money borrowed by the Company and/or its subsidiaries (exclusive of intra-company borrowing) shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to £35 million.

3.2.15 *Indemnity of officers*

Subject to the Statutes, the Company may indemnify any director or other officer against any liability incurred as a director or officer in or in connection with the execution or discharge of his duties or powers, and purchase and maintain for any Director or other officer, insurance against such liability. Subject to this, but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every Director or other officer will be indemnified out of the assets of the Company against any liability incurred as a Director or officer in defending any proceedings (whether civil or criminal) in which judgment is given in his favour or he is acquitted or in connection with any application under the Statutes in which relief is granted to him by the court.

3.2.16 *Record date for service*

Any notice or other document may be served or delivered by the Company by reference to the register of members of the Company as it stands on the record date (if any) specified in accordance with the Articles, and failing such record date then at any time not more than fifteen days before the date of posting (where the notice or other document is posted) or otherwise not more than 15 days before the date of service or delivery. No change in the register of members after that time will invalidate that service or delivery. Where any notice or other document is served on or delivered to any person in respect of a share, no person deriving any title or interest in that share will be entitled to any further service or delivery of that notice or document.

4 **Directors' and other interests**

- 4.1 The interests of the Directors in the share capital of the Company which have been notified under section 324 or 328 of the Act or as are required to be entered in the register maintained under section 325 of the Act, and the interests of all persons connected with the directors (within the meaning of section 346 of the Act) which would, if the connected person were a director, be required to be disclosed in accordance with the foregoing sections and the existence of which is known, or could with reasonable diligence become known by the Director concerned, all of which are or will be beneficial unless otherwise stated, at the date of this document and as those interests are expected to be following Admission, are as follows:



(i) At the date of this document:

Director	Number and class of shares	Percentage of issued share capital
D G O'Farrell <sup>(1)</sup>	110,400 C ordinary 15,920 D ordinary 2,000 deferred	} 12.15
J Golledge <sup>(2)</sup>	55,200 C ordinary 7,960 D ordinary 1,000 deferred	} 6.07
M J Smith <sup>(3)</sup>	55,200 C ordinary 7,960 D ordinary 1,000 deferred	} 6.07
G Tennant <sup>(4)</sup>	55,200 C ordinary 7,960 D ordinary 1,000 deferred	} 6.07

<sup>(1)</sup> 20,000 C ordinary shares are held by Mrs J J O'Farrell, and 30,000 C ordinary shares are held jointly by Mrs J J O'Farrell and D G O'Farrell.

<sup>(2)</sup> 10,000 C ordinary shares are held by Mrs C E Golledge, and 8,000 C ordinary shares are held jointly by Mrs C E Golledge and J Golledge.

<sup>(3)</sup> 6,000 C ordinary shares are held jointly by M J Smith and N Smith.

<sup>(4)</sup> 11,040 C ordinary shares are held by Mrs J M Tennant.

(ii) Following Admission:

Director	Number of Ordinary Shares*	Percentage of issued share capital
D G O'Farrell	2,646,080	12.3
J Golledge	1,298,040	6.0
M J Smith	1,273,040	5.9
G Tennant	1,223,040	5.7

\*These figures are after the Directors' sales in the Placing.

4.2 Save as disclosed in paragraph 4.1 above, none of the Directors and no person connected with them for the purposes of section 346 of the Act has any interest, whether beneficial or non-beneficial, in the issued ordinary share capital of the Company or any of its subsidiaries.

4.3 The Directors are aware of the following persons (other than Directors) who (assuming Admission becomes effective) immediately following Admission will be interested, directly or indirectly, in 3 per cent. or more of the issued share capital of the Company:

Shareholder	Number of Ordinary Shares	Percentage of issued Ordinary Share Capital
The Third Granville Modern Management Trust*	788,035	3.7
Granville Private Equity Limited Partnership*	1,751,189	8.1
Metroline Profit Sharing Trustee Limited	4,758,094	22.1

\*Funds advised or managed by Granville Private Equity Managers Limited.

4.4 No Director has or has had any interest, direct or indirect, in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Group and which was effected by any member of the Group during the current or previous financial year or any earlier financial year and remains, in any respect, outstanding or unperformed.

- 4.5 No loans have been granted to, or guarantees provided for the benefit of, any of the Directors by the Company or any of its subsidiaries.

## 5 Directors' service agreements and emoluments

### 5.1 Executive Directors

The following service agreements have been entered into between the Company and the executive Directors:

Director	Basic Annual Salary (£)		Position
	Current	From 2 August 1997	
D G O'Farrell	78,000	105,000	Chief Executive
J Golledge	52,000	65,000	Finance Director
M J Smith	49,920	62,500	Engineering Director
G Tennant	57,200	71,500	Operations Director

All executive Directors have entered into service agreements with the Company.

The service agreements are terminable upon twelve months notice by either party.

Each of the executive Directors is entitled to participate in the Company's bonus scheme. The current arrangements (which will remain in force until October 1997) provide for a bonus of up to 20 per cent. of basic salary to be paid to the director dependent upon 90 per cent. of the Company's budget being achieved.

The Director receives an additional 1 per cent. of his salary for each percentage point by which performance is between 90 per cent. and 100 per cent. of budget up to 10 per cent. of his salary. For performance above 100 per cent. the Director receives up to a further 10 per cent. of his salary calculated at a rate of two thirds of one per cent. of his salary for each one per cent. by which performance exceeds 100 per cent. of budget.

New arrangements will be introduced from October 1997 which will allow a discretionary bonus payment each year. The payment and/or amount of bonuses will be determined by the Remuneration Committee of the Board, having regard to a number of performance based criteria. Bonuses will be capped at 50 per cent. of salary.

All executive Directors are entitled under the terms of their service agreements to a company car (with an option to take a cash sum instead of replacing the car at the next replacement date) and to participate in the Company's private medical insurance, permanent health insurance and life assurance schemes.

Each Director is a member of the Company's defined benefit pension scheme to which each Director contributes 5 per cent. of his pensionable salary. The Company contributes to the pension scheme in accordance with the advice of actuaries. Currently this contribution is 9.9 per cent. of each Director's salary. The pension scheme provides a pension on retirement equal to 1/60th of the Director's final pensionable salary for each year of service. In addition, each of the Company and the Directors contribute 5 per cent. of annual bonus into a money purchase scheme. Under the new arrangements from October 1997, the latter contributions will be raised to 10 per cent. of bonus.

### 5.2 Non-executive Directors

- 5.2.1 Mr A Morris has been engaged by the Company as a non-executive Director and Chairman of the Company under a letter of appointment dated 27 May

1997. The appointment is terminable at will by either party. An annual fee of £20,000 is payable.

5.2.2 Mr A Coppin has been engaged by the Company as a non-executive Director under a letter of appointment dated 27 May 1997. The appointment is terminable at will by either party. An annual fee of £12,000 is payable.

5.2.3 Mr C Harper has been engaged by the Company as a non-executive Director under a letter of appointment dated 23 June 1997. The appointment is terminable at will by either party and is also conditional upon Mr Harper remaining an employee of Granville Private Equity Managers Limited ("GPEM"). An annual fee of £12,000 is payable and is paid by the Company to GPEM.

5.3 Copies of the executive Directors' service agreements or memoranda of the main terms and the terms of appointment of the non-executive Directors are available for inspection at the addresses specified in paragraph 16 below.

5.4 Save as set out in this paragraph 5 there are no existing or proposed service contracts or consultancy agreements between the Directors and any member of the Group other than contracts expiring or determinable by the employing company without payment or compensation (other than statutory compensation) within one year.

5.5 There is no arrangement under which any Director has agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

5.6 The total aggregate of the remuneration paid and benefits in kind granted to the Directors by the Group for the year ended 11 October 1996 was £337,000.

5.7 The estimated emoluments payable to the Directors (including fees payable to non-executive Directors), from the Company for the current financial year under arrangements in force as at the date of this document will amount to approximately £370,000.

## 6 Existing Schemes and Share Option Schemes

### 6.1 *The Metroline Profit Sharing Scheme*

The Metroline Employee Profit Sharing Scheme ("Profit Sharing Scheme") was established by a deed dated 30 January 1995 made between the Company and Metroline Profit Sharing Trustee Limited (a wholly owned subsidiary of the Company), as trustee ("the Trustee"). The directors of the Trustee are John Golledge and three employee representatives, namely George Goodridge, Martin Loughlin and Kenneth Yerby. The Profit Sharing Scheme has been approved by the Board of Inland Revenue under the provisions of the Income and Corporation Taxes Act 1988 ("Taxes Act 1988"). The Company will not provide the Trustee with any further funds to acquire Ordinary Shares without the prior approval of the Company in general meeting. The principal terms of the Profit Sharing Scheme in as far as they relate to Ordinary Shares still held by the Trustee on behalf of the participants are as follows:

#### 6.1.1 *Restrictions on participants*

The Taxes Act 1998 requires shares allocated under the Profit Sharing Scheme to be held by the Trustee for a minimum period of two years after

allocation during which they may not be dealt with in any way except in certain circumstances such as upon a takeover, a reconstruction, or upon death or reaching age 60 or leaving employment because of injury, disability or redundancy. The Trustee must retain the shares for a further year unless the participant otherwise directs. The Trustee currently holds 250,426 A ordinary shares on behalf of participants. The participants will be entitled, if they so wish, to sell up to 237,145 A ordinary shares equating to 4,505,755 Ordinary Shares after 3 October 1997 and a further 13,281 A ordinary shares equating to 252,339 Ordinary Shares after 26 March 1998. The trustee holds no A ordinary shares which have not been appropriated to employees.

#### 6.1.2 *Voting and dividends*

Participants are the beneficial owners of shares allocated to them and will be able to instruct the Trustee to vote in respect of their shares at general meetings of the Company (and in the absence of instructions, the Trustee will refrain from voting), receive dividends and participate in any rights or capitalisation issues in respect of such shares.

### 6.2 *The Metroline 1994 Unapproved Share Option Scheme*

The Metroline 1994 Unapproved Share Option Scheme ("1994 Scheme") has not been approved by the Inland Revenue. The 1994 Scheme was established in connection with the Buy-out to grant options to Directors and other senior employees. No further options may be granted under the 1994 Scheme. The principal terms of the 1994 Scheme are as follows:

#### 6.2.1 *Exercise of options*

Options granted to the executive Directors have been exercised. Options held over D ordinary shares by other senior employees may be exercised at any time following 31 March 1999 or, if earlier, the publication of the accounts of the Company for the year ending 9 October 1998 at an exercise price of 36p per D ordinary share. Following the capital reorganisation this exercise price will be 5p per Ordinary Share. An option will normally lapse if the participant ceases to be an employee of the Group unless the Board otherwise at its discretion determines. In the event of a takeover, reconstruction, amalgamation or voluntary winding-up options may be exercised within the specified period after the relevant event.

#### 6.2.2 *Terms of options and issue of Ordinary Shares*

Options are neither transferrable nor assignable. As soon as practicable after the exercise of an option, the appropriate number of Ordinary Shares will be allotted and issued to the option holder or his nominee and the Company will apply to the London Stock Exchange for a listing of such shares. The Ordinary Shares allotted will rank *pari passu* with all other issued Ordinary Shares of the Company save that they will not rank for any dividend or other rights attaching to such shares by reference to a record date prior to their issue.

#### 6.2.3 *Variation of capital*

In the event of a variation of share capital including a capitalisation issue or rights issue or any consolidation, sub-division or reduction of capital of the

Company the number and option price of Ordinary Shares subject to options shall be adjusted in such manner as the auditors of the Company confirm in their opinion is fair and reasonable.

6.2.4 *Amendment and termination*

The Board may amend the 1994 Scheme, but no amendment may be made which would adversely affect any rights already acquired by a participant. No alteration to the advantage of participants may be made to provisions relating to the persons to whom options may be granted, the limits on the total number of Ordinary Shares over which options may be granted, the limits on the number of options which may be granted to any participant and the adjustments to be made in the event of a variation of share capital (except for minor alterations to benefit the administration of the 1994 Scheme, to take account of a change in legislation or to obtain or maintain favourable exchange control or regulatory treatment for participants or any member of the Group).

6.3 *The Metroline Employee Benefit Trust*

6.3.1 The Metroline Employee Benefit Trust ("EBT") is an employee benefit trust established by a trust deed dated 7 October 1994 for the benefit of employees and former employees of the Group and their dependants. The trustee is Metroline Trustees Limited, a wholly owned subsidiary of the Company. The directors are John Golledge, Elvis Vaughan, Lloyd Ferns and Kenneth Yerby. The trust was established at the time of the Buy-out to subscribe for shares which represented 25.1 per cent. of the Company's issued ordinary share capital for distribution to employees through the Profit Sharing Scheme.

6.3.2 The trustee of the EBT has discretion to provide benefits to the beneficiaries of the EBT or any of them including pursuant to such employees' share schemes as the Company may adopt.

6.3.3 Immediately following Admission, the trustee of the EBT will hold 10,906 Ordinary Shares.

6.3.4 The Company will not issue further Ordinary Shares to the trustee or provide funds to the trustee to acquire existing Ordinary Shares without the prior approval of the Company in general meeting.

6.4 *The Metroline Employee (No.2) Trust*

6.4.1 The Metroline Employee (No.2) Trust is an employee benefit trust established by deed in 1996 for the benefit of employees and former employees of the Group. The trustee is Metroline Management Trustees Limited, a wholly owned subsidiary of the Company. The directors are Declan O'Farrell, John Golledge, Gordon Tennant and Michael Smith. The trust was established to acquire shares in the Company from those senior managers who left the Group following the Buy-out and to make them available to future managers.

6.4.2 The trustee of The Metroline Employee (No.2) Trust has discretion to provide benefits to the beneficiaries of The Metroline Employee (No.2) Trust or any of them including pursuant to such employees' share schemes as the Company may adopt.

- 6.4.3 The trustee of The Metroline Employee (No.2) Trust will not hold any Ordinary Shares immediately following Admission.
- 6.4.4 The Company will not issue further Ordinary Shares to the trustee or provide funds to the trustee to acquire existing Ordinary Shares without the prior approval of the Company in general meeting.
- 6.5 *The Metroline plc Employee Share Option Scheme (1997)*
- The Metroline plc Employee Share Option Scheme (1997) ("Employee Scheme") has been approved by the Board of Inland Revenue under the provisions of the Income and Corporation Taxes Act 1988. The principal terms of the Employee Scheme are as follows:
- 6.5.1 *Eligibility*
- Employees and full-time directors of participating companies in the Group with a specified minimum period of service of no more than five years will be eligible to participate on each occasion that the Board determines to grant options. The Board has a discretion to shorten the qualifying period of service. The Board may exclude directors and employees who have been granted options under The Metroline plc Executive Share Option Scheme (1997).
- 6.5.2 *Exercise price*
- The exercise price per Ordinary Share will not be less than the middle market price averaged over the three dealing days immediately preceding the date of grant as derived from the Daily Official List of the London Stock Exchange or in the case of an option to subscribe, the nominal value of the Ordinary Share if higher.
- 6.5.3 *Grant of options*
- Options may normally only be granted within 42 days of the announcement by the Company of its interim or final results each year. Options may be granted outside these periods if the directors consider that there are sufficiently exceptional circumstances to justify the grant of options at that time. No payment is required for grant of an option.
- 6.5.4 *Individual limit*
- On each occasion that the Employee Scheme is operated, options must be granted on the same terms to all participants save that the basis of grant may vary by reference to objective factors such as salary or length of service. Each individual's participation will be limited so that the aggregate price payable for Ordinary Shares under options granted under the Employee Scheme and any other share option scheme (other than a savings related share option scheme) established by the Company (including options which have been surrendered or exercised or which have lapsed) over a ten year period will not exceed four times his annual remuneration.
- In addition, so as to comply with Inland Revenue requirements, an individual's participation is restricted by limiting the value (as at the date the option is granted) of Ordinary Shares under subsisting options to £30,000 or such other amount as is from time to time specified by legislation.

Benefits under the Employee Scheme are not pensionable.

6.5.5 *Exercise of options*

In normal circumstances, an option may only be exercised after three years and within ten years (or such shorter period exceeding three years as the Directors may determine) from its grant.

An option will normally lapse if the participant ceases to be an employee of the Group. Where, however, a participant ceases to be an employee by reason of injury, disability, redundancy, retirement or a disposal of the company or business in which he works, he will have six months from the date of leaving within which to exercise his option notwithstanding that he has not held the option for three years. The Board has discretion to extend the period for exercise.

If a participant dies, the option may be exercised within twelve months after his death irrespective of whether the performance requirement has been satisfied. The Board may allow a participant to exercise his option on cessation of employment in other circumstances.

In the event of a takeover, reconstruction, amalgamation or voluntary winding-up of the Company, options may within the specified period after the relevant event, be exercised, or in certain circumstances exchanged for options over shares in the acquiring company or a company associated with the acquiring company.

6.5.6 *Terms of options and issue of Ordinary Shares*

Options are neither transferrable or assignable. As soon as practicable after the exercise of an option granted over unissued Ordinary Shares, the appropriate number of Ordinary Shares will be allotted and issued to the option holder or his nominee and the Company will apply to the London Stock Exchange for a listing of such shares. The Ordinary Shares allotted will rank *pari passu* with all other issued Ordinary Shares of the Company save that they will not rank for any dividend or other rights attaching to such shares by reference to a record date prior to their issue. Existing Ordinary Shares may also be transferred on the exercise of an option.

6.5.7 *Variation of capital*

In the event of a variation of share capital including a capitalisation issue or rights issue or any consolidation, sub-division or reduction of capital of the Company the number and exercise price of Ordinary Shares subject to options shall be adjusted in such manner as the auditors of the Company confirm in their opinion is fair and reasonable subject to the prior approval of the Board of Inland Revenue being obtained.

6.5.8 *Amendment and termination*

The Board may amend the Employee Scheme, but no amendment may be made which would adversely affect any rights already acquired by a participant. No alteration to the advantage of participants may be made to provisions relating to the persons to whom options may be granted, the limits on the total number of Ordinary Shares over which options may be granted,

the limits on the number of options which may be granted to any participant and the adjustments to be made in the event of a variation of share capital (except for minor alterations to benefit the administration of the Employee Scheme, to take account of a change in legislation or to obtain or maintain favourable exchange control or regulatory treatment for participants or any member of the Group). No amendment may be made without the approval of the Board of Inland Revenue.

No option may be granted after 24 June 2007.

6.5.9 *Grant of Options before Admission*

The Board proposes to grant immediately before Admission options over a maximum of 256,025 Ordinary Shares (representing 1.2 per cent. of the enlarged issued share capital following Admission). Each employee of the Group at the date of grant excluding the Directors will be granted an option to acquire 209 Ordinary Shares at an exercise price equal to the Placing Price.

6.6 *The Metroline plc Executive Share Option Scheme (1997)*

The Metroline plc Executive Share Option Scheme (1997) ("Executive Scheme") comprises two parts, namely The Metroline plc Approved Executive Share Option Scheme (1997) ("Approved Part") and The Metroline plc Unapproved Executive Share Option Scheme (1997) ("Unapproved Part"). The Approved Part will be submitted to the Board of Inland Revenue for approval under the provisions of the Income and Corporation Taxes Act 1988. The Unapproved Part has not been approved by the Inland Revenue and it is not intended to apply for approval in respect of it. The principal terms of the Executive Scheme are as follows:

6.6.1 *Administration*

The Executive Scheme will be administered and the grant of options supervised by the Remuneration Committee of the Board.

6.6.2 *Eligibility*

The Remuneration Committee of the Board may select employees and directors of the Company and of its subsidiaries (who are not within two years of their normal retirement date) to whom options may be granted over Ordinary Shares.

6.6.3 *Exercise price*

The exercise price per Ordinary Share will not be less than the middle market price averaged over the three dealing days immediately preceding the date of grant as derived from the Daily Official List of the London Stock Exchange or in the case of an option to subscribe, the nominal value of the Ordinary Share if higher.

6.6.4 *Performance conditions*

The exercise of options will normally be conditional on the achievement of a specified performance target determined by the Remuneration Committee when options are granted. The Remuneration Committee has indicated that



for the purposes of determining the appropriate performance target it will have regard to guidelines on share option schemes issued by institutional investors. The Remuneration Committee will determine the appropriate performance targets before any grant of options.

#### 6.6.5 *Grant of options*

Options may normally only be granted within 42 days of the announcement by the Company of its interim or final results each year. Options may be granted outside these periods if the Remuneration Committee of the Board considers that there are sufficiently exceptional circumstances to justify the grant of options at that time. No payment is required for the grant of an option.

#### 6.6.6 *Individual limit*

Each individual's participation will be limited so that the aggregate price payable for Ordinary Shares under options granted under the Executive Scheme and any other executive share option scheme established by the Company (including options which have been surrendered or exercised or which have lapsed) over a ten year period will not exceed four times his annual remuneration.

In addition, so as to comply with Inland Revenue requirements, an individual's participation under the Approved Part is restricted by limiting the value (as at the date the option is granted) of Ordinary Shares under subsisting options to £30,000 or such other amount as is from time to time specified by legislation.

Benefits under the Executive Scheme are not pensionable.

#### 6.6.7 *Exercise of options*

In normal circumstances, an option may only be exercised after three years and within ten years or, in the case of the Unapproved Part, within seven years (or such shorter period exceeding three years as the Directors may determine) from its grant and, in the case of an option granted subject to the satisfaction of a performance condition, if that performance requirement has been met.

An option will normally lapse if the participant ceases to be an employee of the Group. Where, however, a participant ceases to be an employee by reason of injury, disability or retirement, he will have six months from the date of leaving within which to exercise his option irrespective (save in the case of retirement) of whether the performance requirement has been satisfied and notwithstanding that he has not held the option for three years. The Remuneration Committee has discretion to extend the period for exercise.

If a participant dies, the option may be exercised within twelve months after his death irrespective of whether the performance requirement has been satisfied.

In the event of a takeover, reconstruction, amalgamation or voluntary winding-up of the Company, options may (irrespective of whether the

performance requirement has been satisfied) within the specified period after the relevant event, be exercised, or in certain circumstances exchanged for options over shares in the acquiring company or a company associated with the acquiring company.

6.6.8 *Terms of options and issue of Ordinary Shares*

Options are neither transferrable nor assignable. As soon as practicable after the exercise of an option granted over unissued Ordinary Shares, the appropriate number of Ordinary Shares will be allotted and issued to the option holder or his nominee and the Company will apply to the London Stock Exchange for a listing of such shares. The Ordinary Shares allotted will rank *pari passu* with all other issued Ordinary Shares of the Company save that they will not rank for any dividend or other rights attaching to such shares by reference to a record date prior to their issue. Existing Ordinary Shares may also be transferred on the exercise of an option.

6.6.9 *Variation of capital*

In the event of a variation of share capital including a capitalisation issue or rights issue or any consolidation, sub-division or reduction of capital of the Company the number and exercise price of Ordinary Shares subject to options shall be adjusted in such manner as the auditors of the Company confirm in their opinion is fair and reasonable subject, in the case of the Approved Part, to the prior approval of the Board of Inland Revenue being obtained.

6.6.10 *Amendment and termination*

The Board may amend the Executive Scheme, but no amendment may be made which would adversely affect any rights already acquired by a participant. No alteration to the advantage of participants may be made to provisions relating to the persons to whom options may be granted, the limits on the total number of Ordinary Shares over which options may be granted, the limits on the number of options which may be granted to any participant and the adjustments to be made in the event of a variation of share capital (except for minor alterations to benefit the administration of the Executive Scheme, to take account of a change in legislation or to obtain or maintain favourable exchange control or regulatory treatment for participants or any member of the group). No amendment to the Approved Part may be made without the approval of the Board of Inland Revenue.

No option may be granted after 24 June 2007.

6.7 *Limits on share capital available to the Share Option Schemes*

The Share Option Schemes are subject to the following limits:

- 6.7.1 in any three year period the number of unissued Ordinary Shares placed under option under the Share Option Schemes and any other share option schemes of the Company and issued pursuant to any other employee share schemes of the Company (other than any share option scheme) shall not exceed in aggregate 3 per cent. of the Company's issued ordinary share capital;
- 6.7.2 in any ten year period the number of unissued Ordinary Shares placed under option under the Share Option Schemes and any other share option schemes

of the Company and issued pursuant to any other employee share schemes of the Company (other than any share option scheme) shall not exceed in aggregate 10 per cent. of the Company's issued ordinary share capital; and

- 6.7.3 in any ten year period the number of unissued Ordinary Shares placed under option under the Executive Scheme and any other executive share option schemes of the Company shall not exceed in aggregate 5 per cent. of the Company's issued ordinary share capital.

In calculating the above limits on the number of new Ordinary Shares which may be issued, options granted on or before Admission do not count.

## 7 Principal establishments

The following are the principal properties owned or leased by members of the Group:

Property	Tenure	Date of lease	Term of lease	Current rent per annum	Next rent review date	Approx area
1. Willesden Bus Garage, 287 High Road, London NW10 2JY	freehold	-	-	-	-	9,940m <sup>2</sup>
2. Harrow Weald Bus Garage, 467 High Road, Harrow Weald, Middlesex HA3 6EJ	freehold	-	-	-	-	6,027m <sup>2</sup>
3. Cricklewood Bus Garage, 329 Edgware Road, London NW2 6JP	freehold	-	-	-	-	13,505m <sup>2</sup>
4. North Wembley Midi Bus Base, GEC Industrial Estate, Building No.9, East Lane, Wembly, Middlesex HA9 7PX	leasehold	20/3/97	10 years from 1/3/97	£60,000	1/3/02	3,110m <sup>2</sup>
5. 118-122 (even) College Road, Harrow, Middlesex HA1 1DB	leasehold	17/2/78	25 years from 1/1/78	£98,750	1/1/98	700m <sup>2</sup>
6. Edgware Midi Bus Base, Station Road, Edgware, Middlesex HA8 7AN	leasehold	20/11/96	1 year from 17/8/96	£33,000	-	2,240m <sup>2</sup>

## 8 Subsidiaries

The Company is the ultimate holding company of the Group and has the following principal subsidiaries, each of which is wholly owned:

Name	Country of incorporation	Registered office or principal place of business	Activity
Metroline Travel Limited (registered no. 2328401)	England and Wales	118-122 College Road, Harrow, Middlesex, HA1 1DB	Trading company
Brents Travel Group Limited (registered no. 3084268)	England and Wales	118-122 College Road, Harrow, Middlesex, HA1 1DB	Holding company
Brents Luxury Coach Hire Limited (registered no. 2420601)	England and Wales	118-122 College Road, Harrow, Middlesex, HA1 1DB	Trading company

The shares in Brents Luxury Coach Hire Limited are held by Brents Travel Group Limited. The Group has a ten per cent. interest in the shares of Routemaster Re-insurance Limited. Routemaster Re-insurance Limited is in the process of being voluntarily wound up. The Directors anticipate that the capital investment will be repaid in full.

## 9 Material contracts

The following contracts being contracts entered into by the Company and its subsidiaries, otherwise than in the ordinary course of business, during the two years immediately preceding the date of this document are or may be material:

- (i) The Placing Agreement referred to in paragraph 11 below.
- (ii) The agreement dated 9 October 1995 made between the Company (1), Mr John Moir (2) and Mrs Rosemarie Moir (3) (the "Agreement") (Mr and Mrs Moir together and only in this sub-paragraph (ii) being the "Vendors"). Under the agreement the Company acquired from the Vendors the shares of Brents Travel Group Limited ("BTGL"). The agreement was conditional on an agreed form of reorganisation taking place prior to completion. Pursuant to the reorganisation, BTGL acquired the business then carried on by the J & R Moir Partnership and the Astons Partnership (together the "partnerships") and the entire issued share capital of each of Brents Travel Limited and Brents Luxury Coach Hire Limited (being now two subsidiaries of BTGL).

The Company paid a cash consideration of £479,180.92. In addition to the consideration payable under the agreement, the Company paid approximately £360,000 to the lessor of nine coaches which prior to completion had been leased by one of the partnerships, and also repaid certain overdraft facilities totalling approximately £130,000. The Company at the same time agreed to make a contribution of £100,000 to the personal pension plans of the Vendors.

Under the agreement the Company was given normal commercial warranties. The Company is required to give notice of any claims relating to non-tax matters by 30 September 1997, and relating to tax or the separate tax covenant by 30 November 2001. In order to bring a claim, the aggregate amount of all claims must exceed £30,000, in which event the whole amount of the claims can be recovered up to a maximum aggregate sum of £500,000.

## 10 London Transport

- 10.1 Metroline Travel is party to a debenture with LT dated 4 February 1994 (the "Debenture"), entered into as part of the consideration for the purchase of Cricklewood Bus Garage, Harrow Weald Bus Garage and Willesden Bus Garage ("the Properties") on 3 December 1993.
- 10.2 Under the Debenture, Metroline Travel acknowledged that, in respect of the three Properties, it is indebted to LRT in the sum of £100 plus all or any amounts which become payable under the Debenture (each a "Clawback Amount"). Metroline Travel may become liable to pay a Clawback Amount if there is a disposal (as defined in the Debenture) in respect of one or more of the Properties resulting from the exploitation of the relevant Properties for uses other than their existing uses on or before 31 March 2004 (at the latest) (the "Clawback Period").
- 10.3 A disposal for the purposes of the Debenture may include the disposal of an entire or lesser interest in any of the Properties, the receipt of insurance proceeds consequent upon damage to a Property or the disposal of the shares in Metroline Travel. A disposal may also arise if, during the Clawback Period, there is a grant of a planning

permission in respect of one of the Properties, or if a conditional contract or option to sell a Property is entered into or a right of pre-emption is granted.

- 10.4 The Clawback Amount which is payable by Metroline Travel to LT on a disposal will usually be calculated as a proportion of the gain which accrues on the disposal taking place. The proportion of the gain that Metroline Travel would then be liable to pay depends on when the disposal takes place, ie if the disposal takes place before 1 April 1997, the proportion is 75 per cent., reducing to 60 per cent. in respect of disposals before 1 April 1998 and further reducing to 50 per cent. in respect of disposals during the remainder of the Clawback Period. No Clawback Amount will become payable therefore where such disposal does not produce a gain, where the consideration received (or deemed to be received) on the disposal is not more than £150,000 (subject to indexation) or where the disposal is a disposal of a Property when part of the original bus business is sold as a going concern. Nevertheless, on any such disposal when part of the original bus business is sold as a going concern the transferee (in the case of a property transfer) must assume the responsibility to pay future Clawback Amounts, whilst, in the case of a share sale of Metroline Travel, Metroline Travel will remain bound by a charge over the relevant Property.
- 10.5 Clawback Amounts in the case of most disposals become due on the earlier of the date falling 28 days after the date of the disposal, the date the price is paid, or the last day of the Clawback Period.
- 10.6 The Company has guaranteed to LT the payment of any amounts which become payable by Metroline Travel to LT under the Debenture, by a guarantee dated 6 October 1994. Metroline Travel has secured its obligations by charges dated 4 February 1994 in respect of the Properties.

## 11 Placing arrangements

By an agreement (the "Placing Agreement") dated 16 July 1997 made between (1) the Company (2) the Vendors (3) the Directors and (4) Granville & Co., Granville & Co. has agreed, conditionally, *inter alia*, upon Admission no later than 29 July 1997: (a) as agent of the Vendors, to use its reasonable endeavours to procure purchasers for those Ordinary Shares to be sold pursuant to the Placing at the Placing Price ("Sale Shares") or, failing which, itself to purchase such Sale Shares at the Placing Price, and (b) as agent of the Company, to use its reasonable endeavours to procure subscribers for those Ordinary Shares to be issued by the Company pursuant to the Placing ("Subscription Shares") by way of subscription at the Placing Price or, failing which, itself to subscribe for such Subscription Shares at the Placing Price.

Under the Placing Agreement, the Company has agreed to pay Granville & Co. fees and commissions of approximately £290,000 plus any applicable VAT out of which Granville & Co. will pay commissions as appropriate to the Company's broker and the Vendors have agreed to pay Granville & Co. commissions of approximately £78,000 in aggregate plus any applicable VAT. Each Vendor has also agreed to pay any stamp duty or stamp duty reserve tax liability of placees arising as a result of the sale by that Vendor of Sale Shares pursuant to the Placing. The Company has also agreed to pay all other costs, charges and expenses of, or incidental to, the Placing and the application for Admission, including fees and costs of professional advisers, printing, advertising and distribution charges, the fees and expenses of Independent Registrars Group Limited and the fees payable to the London Stock Exchange.

The Placing Agreement contains warranties, undertakings and indemnities given by the Company, the Directors and the Vendors in favour of Granville & Co. and a tax indemnity given by certain of the Directors to the Company and Granville & Co.

Granville & Co. may terminate the Placing Agreement in specified circumstances prior to Admission including any material breach of any of the warranties contained in the Placing Agreement.

The Directors have undertaken not to dispose of any Ordinary Shares (other than pursuant to the Placing) at any time before the publication of the Report and Accounts of the Company for the year ending 9 October 1998 and not before the publication of the interim results of the Company for the period ended 26 March 1999 other than through the Company's brokers.

Those Vendors which are funds advised or managed by Granville Private Equity Managers Limited have undertaken not to dispose of any Ordinary Shares (other than pursuant to the Placing) at any time before the publication of the Report & Accounts of the Company for the year ending 10 October 1997 and only to dispose of any Ordinary Shares from that date until the publication of the interim results of the Company for the period ending 27 March 1998 following consultation with Granville & Co.

## 12 Litigation

There are no legal or arbitration proceedings in which the Group is engaged or which are pending or threatened by or against the Company or any of its subsidiaries of which the Company is aware which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Group's financial position.

## 13 Working capital

The Directors are of the opinion that, taking into account the estimated net proceeds of the Placing receivable by the Group and the bank and other facilities available to the Group, the Group has sufficient working capital for its present requirements.

## 14 Taxation

This paragraph is intended to be a general guide to the current UK tax law and practice in the areas referred to below. It applies to persons who (unless the position of non-resident shareholders is expressly referred to) are resident or ordinarily resident in the UK for tax purposes and who beneficially own shares as investments. Any person who is in doubt as to his tax position or requires further information should consult an appropriate professional adviser.

### 14.1 *UK taxation of dividends*

14.1.1 Under current UK tax law, no tax will be withheld from any dividend paid by the Company but the Company will, generally, have to account to the Inland Revenue for an amount of advance corporation tax ("ACT"). The rate of ACT is currently 25 per cent. of the dividend paid. ACT paid by the Company will be available to be set off against its liability to corporation tax, subject to certain limits and restrictions.

14.1.2 *Current position* A UK resident individual shareholder is entitled to a tax credit equivalent to 25 per cent. of any dividend paid (equal to 20 per cent. of the aggregate of the dividend and the tax credit). The aggregate of the dividend and the associated tax credit ("the grossed-up amount of the dividend") is treated as part of the shareholder's total income (if any) for UK

tax purposes and the tax credit is then available to offset all or part of such shareholder's liability to UK income tax. Dividend income is treated as the top slice of an individual's income. To the extent that the tax credit exceeds an individual shareholder's overall liability to UK income tax the shareholder may (subject to sub-paragraph 14.1.3 below) be able to claim payment of the excess from the Inland Revenue.

The tax credit will discharge the liability to UK income tax on the amount of the grossed up dividend of a UK resident individual shareholder who (taking into account the grossed-up amount of the dividend) is a lower or basic rate tax payer. A higher rate tax payer will have a further liability in respect of the grossed-up amount of the dividend for tax on that part of the grossed-up amount of the dividend which falls into the higher rate band, at the difference between the higher and lower rates. For example, on a dividend of £80, there will be a tax credit of £20, a higher rate tax payer will be taxable at 40 per cent. on £100 (£80 plus £20) with a tax credit of £20, leaving a further £20 to pay.

- 14.1.3 *Budget changes* In his Budget on 2 July 1997, the Chancellor announced certain changes to the treatment of dividends and tax credits. The Finance Bill, published on 8 July 1997, contains details of the changes. The Finance Bill is subject to amendment on its course through Parliament.

The tax credit available to UK resident individual shareholders will be reduced to one-ninth of any dividend paid on or after 6 April 1999 (equal to 10 per cent. of the grossed up amount of the dividend). The lower and higher rates of tax on such dividends will also be reduced to 10 per cent. and 32.5 per cent. respectively. The reduced tax credit will discharge the liability to UK income tax on the amount of the grossed up dividend of a UK individual shareholder who is a lower or basic rate tax payer. An individual will not be able to claim payment of any part of the tax credit from the Inland Revenue in respect of dividends paid on or after 6 April 1999.

In respect of dividends paid on or after 6 April 1999, a higher rate tax payer will have a liability to further tax in respect of the grossed up amount of the dividend which falls into the higher rate band at the difference between the higher rate (32.5 per cent.) and the lower rate (10 per cent.). For example, on a dividend of £80 there will be a tax credit of £8.89; the tax due from a higher rate tax payer will be £28.89 (ie. 32.5 per cent. of £88.89 (£80 plus £8.89)) with a tax credit of £8.89, leaving a further £20 to pay (as is the case with current rates).

There has been no proposed change to the rate of ACT.

- 14.1.4 From 2 July 1997, pension funds cannot claim payment of any part of the tax credit from the Inland Revenue.
- 14.1.5 From 6 April 1999, charities and venture capital trusts cannot claim payment of any part of the tax credit from the Inland Revenue. However, special transitional rules will apply to charities.
- 14.1.6 A UK resident corporate shareholder will not be liable to UK corporation tax on dividends received from the Company. The grossed-up amount of the dividend will represent franked investment income in the hands of such a shareholder. From 2 July 1997 corporate shareholders cannot claim payment

of any part of the tax credit from the Inland Revenue and will not be able to set off losses against tax credits and reclaim them in cash.

14.1.7 An individual shareholder who is a Commonwealth citizen, a resident of the Isle of Man or the Channel Islands, certain other individuals and individuals who are nationals of a state within the European Economic Area, are entitled to a personal allowance in respect of UK income tax. Such individuals will be entitled to claim the tax credit in respect of any dividend received from the Company as if they were UK resident individuals. The ability of other shareholders who are not resident in the UK to claim the benefit of all or part of the tax credit in respect of any dividends received will depend upon the terms of any applicable double taxation agreement between the country where they are resident and the UK. Non-resident shareholders may also be subject to tax on dividend income under any law to which they are subject outside the UK. Non-resident shareholders should consult their own tax advisers concerning their tax liabilities on dividends received, whether they are entitled to claim any part of the tax credit and, if so, the procedure for doing so. The reduced value of the tax credit in respect of dividends paid on or after 6 April 1999 will preclude any claim or result in a reduced claim under any applicable double tax treaty.

14.1.8 It is assumed in this sub-paragraph 14.1 that the Company does not elect to pay dividends as foreign income dividends ("FIDs") and that dividends will not be deemed to be FIDs under Schedule 7 Finance Act 1997 (Special treatment for certain distributions). The Company has no present intention of electing to pay dividends as FIDs.

#### 14.2 Stamp Duty and stamp duty reserve tax ("SDRT")

14.2.1 Except as mentioned in sub-paragraph (14.2.4) below, no liability to stamp duty or SDRT will arise on the issue or allotment of Ordinary Shares by the Company pursuant to the Placing.

14.2.2 Except as mentioned in sub-paragraph (14.2.4) below, the transfer on sale of Ordinary Shares by the Vendors will be liable to *ad valorem* stamp duty at the rate of 50p for every £100 (or part thereof) of the amount or value of the consideration paid or, if an unconditional agreement to transfer such shares is not immediately completed by a duly stamped transfer or where the transfer is effected under CREST, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid. The Vendors have undertaken in the Placing Agreement to bear any stamp duty or SDRT liability payable by the placees on the transfer of Ordinary Shares at the rate of 50p per £100 (or part thereof) or 0.5 per cent. (as appropriate). These arrangements do not apply to any charge to stamp duty or SDRT under any of sections 67, 70, 93 or 96 Finance Act 1986 (referred to below). Each applicant will be required to give confirmation in his application that the increased rate stamp duty and SDRT charges do not apply.

14.2.3 Except as mentioned in sub-paragraph 14.2.4 below, the transfer on sale of Ordinary Shares both before and after the issue of certificates will generally be liable to *ad valorem* stamp duty at the rate of 50p for every £100 (or part thereof) of the amount or value of the consideration paid or, if an unconditional agreement to transfer such shares is not immediately completed by a duly stamped transfer or where the transfer is effected under



CREST, SDRT at the rate of 0.5 per cent. of the amount or value of the consideration paid. Liability to pay such stamp duty or SDRT is that of the transferee or purchaser. In the case of transfers in CREST, SDRT will be collected in CREST in accordance with the CREST rules.

- 14.2.4 Where any charge to stamp duty or SDRT arises under sections 67, 70, 93 or 96 of the Finance Act 1986 (which broadly apply where ordinary shares are transferred or, in certain circumstances, are issued to persons who issue depository receipts or provide clearance services, or their nominees or agents), stamp duty at the higher rate of £1.50 per £100 (or part thereof) or SDRT at the higher rate of 1.5 per cent. (as appropriate) will be payable on the amount or value of the consideration paid for the issue or transfer.

**The above comments may not apply to certain classes of person. Any person who is in doubt as to his tax position should consult his professional adviser.**

## 15 Miscellaneous

- 15.1 The sponsor to the issue is Granville & Co., a division of Granville Limited, of Mint House, 77 Mansell Street, London E1 8AF.
- 15.2 Granville & Co. has given and has not withdrawn its written consent to the issue of this document with the inclusion of its letter and references thereto and it has authorised the contents of its report and such references for the purposes of section 152(1)(e) of the Financial Services Act 1986. Granville & Co. and Granville Davies have each given and have each not withdrawn their written consents to the inclusion of each of their names in the forms and contexts in which they are included.
- 15.3 Ernst & Young has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and references thereto in the form and context in which they are included and it has authorised the contents of those parts of this document for the purposes of section 152(1)(e) of the Financial Services Act 1986.
- 15.4 The total costs and expenses in connection with the application of the Company for its share capital to be admitted to the Official List and the Placing payable by the Company are estimated to amount to £950,000 (exclusive of value added tax).
- 15.5 Save as disclosed in the paragraph entitled 'Current trading and prospects' in Part 1 of this document, there has been no significant change in the financial or trading position of the Group since 28 March 1997, the period to which the accountants' report set out in Part 2, was prepared.
- 15.6 The Placing has been underwritten in full by Granville & Co., a division of Granville Limited, which is regulated by The Securities and Futures Authority Limited, is registered in England and Wales (registered number 1745463) and whose registered office is at Mint House, 77 Mansell Street, London E1 8AF.
- 15.7 No shares have been marketed or are available in whole or in part to the public in conjunction with the Placing.
- 15.8 It is expected that definitive share certificates will be despatched to placees on 29 July 1997 and that dealings in Ordinary Shares will commence on 29 July 1997.
- 15.9 140,347 Ordinary Shares, to the value of £242,800 at the Placing Price (equivalent to 2.0 per cent. of the Ordinary Shares which are subject to the Placing), have been

offered to independent market makers pursuant to the Placing on the same terms as other participants.

- 15.10 Ernst & Young Chartered Accountants and Registered Auditors, of Becket House, 1 Lambeth Palace Road, London SE1 7EU, have given an unqualified audit report on the statutory accounts of the Company for the accounting period ended 11 October 1996.
- 15.11 The financial information relating to the Company contained in this document does not constitute statutory accounts within the meaning of section 240 of the Act. Copies of the audited financial statements of Metroline Travel for the year ended 31 March 1994 and the period ended 14 October 1994 and the audited consolidated financial statements of the Company for the two years ended 13 October 1995 and 11 October 1996 have been delivered to the Registrar of Companies. These accounts and the accounts for the period ended 28 March 1997 contained unqualified auditors' reports as required by section 235 of the Act. Ernst & Young, Chartered Accountants and Registered Auditors, have audited the accounts of the Group for each of the last four financial periods. Save for the financial information contained within, extracted from, or derived from, the accountants' reports set out within Part 2 of this document, no other information in this document has been audited by Ernst & Young.
- 15.12 The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933 (as amended) or qualify for sale under the laws of any State of the United States of America, Canada, Japan or Australia. Subject to certain exceptions, the Ordinary Shares may not be offered or sold, directly or indirectly, within the United States of America, Canada, Japan or Australia. This document does not constitute an offer to sell, or the solicitation of an offer to acquire, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and is not for distribution in or into the United States of America, Canada, Japan or Australia.
- 15.13 All statements relating to the size and nature of the bus market contained in Part 1 of this document are sourced from the following documents:

*London Transport's Annual Report 1996/97*

*Cowie Group plc and British Bus Group Limited – A report on the merger situation.*

Monopolies and Mergers Commission: March 1997

*Planning London's Transport. LT: November 1996*

*A Transport Strategy for London – Summary. Department of Transport: 1996*

## 16 Documents available for inspection

Copies of the following documents will be available for inspection at the registered office of the Company and at the offices of Berwin Leighton, Adelaide House, London Bridge, London EC4R 9HA during normal business hours on weekdays (except Saturdays and public holidays) for a period of 14 days following the date of this document:

- (i) the Memorandum and current Articles of Association of the Company;
- (ii) the Articles of Association of the Company that will become effective following Admission;
- (iii) the audited consolidated accounts of the Group for the two years ended 11 October 1996;
- (iv) the accountants' report set out in Part 2 of this document;

- (v) the profit forecast set out in Part 3 of this document;
- (vi) the letters from Ernst & Young and Granville & Co. set out in Part 3 of this document;
- (vii) the service contracts and letters of appointment of the Directors referred to in paragraph 5 above;
- (viii) the rules and trust deeds of the Existing Schemes and the Share Option Schemes referred to in paragraph 6 above;
- (ix) the material contracts referred to in paragraph 9 above; and
- (x) the letters of consent referred to in paragraph 15 above.

16 July 1997

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