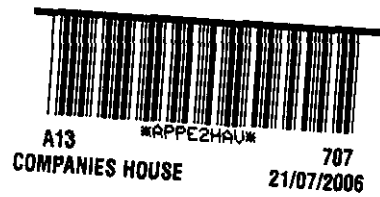


RED STAR PARCELS LIMITED
(REGISTERED NUMBER 03095533)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

1 OCTOBER 2005



RED STAR PARCELS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 1 OCTOBER 2005 (CONTINUED)

PAYMENT OF CREDITORS

It is the company's policy to make payment to suppliers on our standard terms unless alternative payment terms are agreed. The company seeks to abide by these payment terms whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

At 1 October 2005, the company had an average of nil days (2004 - nil days) purchases outstanding in trade creditors.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. In preparing financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

GOING CONCERN

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

EMPLOYEES

It is the policy of the company to communicate with and involve employees on matters affecting their interests at work, and to inform them of the performance of the business.

It is also company policy and practice to give full consideration to suitable applications for employment from disabled persons where they have the necessary abilities and skills for the position. Opportunities exist for employees who become disabled to continue in their employment or be retained for another position.

RED STAR PARCELS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 1 OCTOBER 2005 (CONTINUED)

AUDITORS

Following the purchase of Lynx Express Limited by UPS (UK Holding) Limited on 30 September 2005 PricewaterhouseCoopers LLP agreed to resign as auditors following completion of the audit of the financial statements for the 52 weeks ended 1 October 2005. A resolution proposing the appointment of Deloitte & Touche LLP as auditors will be approved at the forthcoming Annual General Meeting.

By Order of the Board



E PLAMP
Company Secretary
6 January 2006

Independent auditors' report to the members of Red Star Parcels Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 1 October 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

6 January 2006

RED STAR PARCELS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 1 OCTOBER 2005

<u>Continuing operations</u>	<u>Notes</u>	2005 <u>52 weeks</u> £'000	2004 <u>53 weeks</u> £'000
TURNOVER	2	12,171	9,608
Operating charges	3	<u>(11,973)</u>	<u>(10,020)</u>
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		198	(412)
Interest payable		-	-
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		198	(412)
Tax on profit on ordinary activities	6	-	(24)
PROFIT / (LOSS) FOR THE YEAR	11	198	(436)

The notes on pages 7 to 12 form part of these financial statements.

The company has no recognised gains and losses other than the profit/(loss) shown above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical equivalents.

RED STAR PARCELS LIMITED

COMPANY BALANCE SHEET - 1 OCTOBER 2005

	Notes	<u>1 October 2005</u>		<u>2 October 2004</u>	
		£'000	£'000	£'000	£'000
CURRENT ASSETS					
Debtors falling due after one year	7	74		74	
Debtors falling due within one year	7	337		292	
CREDITORS (amounts falling due within one year)	8	(19,231)		(19,384)	
NET CURRENT LIABILITIES			(18,820)		(19,018)
NET LIABILITIES			(18,820)		(19,018)
CAPITAL AND RESERVES					
Called up share capital	10		3,550		3,550
Share premium account	11		1,364		1,364
Capital redemption reserve	11		4,081		4,081
Profit and loss account	11		(27,815)		(28,013)
EQUITY SHAREHOLDERS' FUNDS	12		(18,820)		(19,018)

The notes on pages 7 to 12 form part of these financial statements.

The financial statements were approved by the Board on 6 January 2006 and signed on their behalf by:



E PLAMP
DIRECTOR

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 1 OCTOBER 2005

1 ACCOUNTING POLICIES

(1) Basis of preparation of the financial statements

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(2) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at period-end rates of exchange. All exchange differences thus arising are dealt with through the profit and loss account for the period.

(3) Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers in the UK during the year.

(4) Pensions

The company participates in the Red Star shared cost section of the Railways Pension Scheme, which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. Further details are shown in note 15.

(5) Deferred taxation

In accordance with FRS19 'Deferred tax', deferred taxation is provided on timing differences, arising from the different treatment for accounts and taxation purposes of events and transactions recognised in the financial statements of the current and previous years. Deferred taxation is calculated at the rates at which it is estimated that taxation will arise.

Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits against which the deferred tax asset can be recovered in future years.

(6) Cash flow statement

The Company is exempt from the requirement of Financial Reporting Standard 1 (Revised 1996) to prepare a cash flow statement, as its cash flows are included within the consolidated cashflow statement of LYNX Express Limited, a company registered in England.

(7) Going concern

The directors of the ultimate parent undertaking have indicated that it is their present intention to continue to support the company in meeting its external liabilities.

(8) Related party transactions

The company has taken advantage of the exemption contained within Financial Reporting Standard No. 8 (Related Party Transactions) which allows the company not to disclose transactions with group entities or investee of the group qualifying as related parties.

(9) Leases

Where assets are financed by leasing agreements which give risks and rewards approximating to ownership (finance leases) they are treated as if they had been purchased outright on credit. They are therefore initially recorded as a fixed asset and a liability at a sum equal to the fair value of the asset. Leasing payments on such assets are regarded as consisting of a capital element, which reduces the outstanding liability, and an interest charge (calculated using the sum of digits method). All other leases are regarded as operating leases and the total rentals made under them are charged to the profit and loss account on a straight-line basis over the lease term.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 1 OCTOBER 2005 (CONTINUED)

2 TURNOVER

Continuing operations

The company's turnover and operating loss reflect its principal activity, the distribution and delivery of premium parcel services, which is in the UK.

3 OPERATING CHARGES

	<u>1 October 2005</u>	<u>2 October 2004</u>
	52 weeks	53 weeks
	£'000	£'000
Raw materials, consumables and other purchases	203	177
Staff costs		
Wages and salaries	975	836
Social security costs	89	139
Other pension costs (note 15)	18	26
Depreciation of tangible fixed assets recharged by immediate parent company	29	29
Operating lease rentals (including short term hire)		
Revenue earning vehicles	103	96
Plant and machinery	16	44
Land and buildings	101	103
Auditors' remuneration		
- Audit services	4	4
Other operating charges	10,435	8,566
Total operating charges	<u>11,973</u>	<u>10,020</u>

4 DIRECTORS' EMOLUMENTS

The remuneration of directors is all in respect of their services to Lynx Express Limited and is disclosed in the financial statements of that company.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 1 OCTOBER 2005 (CONTINUED)

5 EMPLOYEES

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

	1 October 2005	2 October 2004
<u>Full Time</u>	<u>Number</u>	<u>Number</u>
Management and supervisory	2	2
Clerical and wage grade	3	3
Total	5	5

The majority of wage and salary costs shown in note 3 relate to services provided by subcontractors.

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

	1 October 2005	2 October 2004
	<u>£'000</u>	<u>£'000</u>
Current tax:		
UK corporation tax on profits of the year	-	-
Deferred tax:		
Origination and reversal of timing differences (ACA and other)	-	24
Tax on profit / (loss) for the year	-	24

Adjustments in respect of previous years arise from the agreement of prior year tax computations.

Factors affecting tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:

	1 October 2005	2 October 2004
	<u>£'000</u>	<u>£'000</u>
Profit / (loss) on ordinary activities before taxation	198	(412)
Profit / (loss) on ordinary activities at the standard UK rate of tax (30%)	59	(124)
Items not deductible for tax purposes	5	22
Shortfall / (excess) of capital allowances over depreciation	9	(23)
Short-term timing differences	-	(11)
Utilisation of tax losses	(73)	-
Tax losses carried forward	-	136
Current charge for the year	-	-

Deferred tax assets/liabilities have not been discounted.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 1 OCTOBER 2005 (CONTINUED)

7 DEBTORS

	1 October 2005 £'000	2 October 2004 £'000
Amounts falling due within one year:		
Amounts owed by other group companies	281	281
Other taxation and social security recoverable	2	11
Other debtors	54	-
	<u>337</u>	<u>292</u>
Amounts falling due after more than one year:		
Deferred tax asset	74	74
	<u>411</u>	<u>366</u>

8 CREDITORS (amounts falling due within one year)

	1 October 2005 £'000	2 October 2004 £'000
Bank overdraft	-	8
Trade creditors	29	22
Amounts owed to other group companies	19,202	19,346
Other creditors	-	8
	<u>19,231</u>	<u>19,384</u>

9 DEFERRED TAXATION

	<u>Recognised</u> £'000	<u>Not Recognised</u> 1 October 2005 £'000	<u>Recognised</u> £'000	<u>Not Recognised</u> 2 October 2004 £'000
Deferred taxation asset:				
Accelerated capital allowances	(74)	-	(75)	-
Tax losses	-	(2,570)	-	(2,643)
Other timing differences	-	-	1	-
	<u>(74)</u>	<u>(2,570)</u>	<u>(74)</u>	<u>(2,643)</u>

Since the future profitability of Red Star Parcels Limited is sufficiently uncertain the tax loss asset recognised in these accounts has been restricted to historic losses utilised in the current and prior year.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 1 OCTOBER 2005 (CONTINUED)

10 CALLED UP SHARE CAPITAL

	1 October 2005 £'000	2 October 2004 £'000
Allotted, called up and fully paid:		
3,550,001 Ordinary shares of £1 each	3,550	3,550
Authorised:		
5,000,000 Ordinary shares of £1 each	5,000	5,000

11 OTHER RESERVES

	Share premium account £'000	Capital reserve £'000	Profit and loss account £'000
At 2 October 2004	1,364	4,081	(28,013)
Profit for the financial year	-	-	198
At 1 October 2005	1,364	4,081	(27,815)

12 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Year ended 1 October 2005 £'000	Year ended 2 October 2004 £'000
Profit / (loss) for the financial year	198	(436)
Opening shareholders' funds	(19,018)	(18,582)
Closing shareholders' funds	(18,820)	(19,018)

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 1 OCTOBER 2005 (CONTINUED)

13 CAPITAL COMMITMENTS

At 1 October 2005 there was £nil (2004 - £nil) capital expenditure authorised by the Board and contracted for but not provided in these financial statements.

14 CONTINGENT LIABILITIES

The nature of the company's business and the extent of its operations are such that it is from time to time involved in legal proceedings, as plaintiff or defendant. No such current proceedings are expected to have a material effect on the company.

15 PENSION COSTS

Red Star Parcels Limited is a participating employer in the BR Shared-cost section of the Railways Pension Scheme (RPS). The RPS was established on 31 May 1994 by the Railways Pension Scheme Order 1994 (SI 1994/1433). The RPS provides benefits based on final average pensionable pay. The assets of the RPS are held separately from those of the company. Following the closure of the Red Star rail operation on 25 May 2001 the number of active employees within this scheme is minimal and consequently FRS17 disclosures for the scheme are consolidated within the financial statements of the ultimate parent company, Lynx Express Limited.

The net pension charge for the year amounted to £18,000 (2004 - £26,000).

16 ULTIMATE PARENT UNDERTAKING

The Company's immediate parent undertaking is Red Star Limited (registered number 02942528) which is registered in England and Wales.

The Company's ultimate parent undertaking and controlling party is United Parcel Service Inc., incorporated in the United States of America. Copies of the financial statements for this company are available from UPS House, Forest Road, Feltham, Middlesex TW13 7DY.