

RED STAR PARCELS LIMITED
(REGISTERED NUMBER 03095533)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

29 September 2001



BIR
COMPANIES HOUSE

2754MCP6

0318
22/07/02

RED STAR PARCELS LIMITED

DIRECTORS REPORT FOR THE PERIOD ENDED 29 SEPTEMBER 2001

The directors submit herewith their annual report and the audited financial statements for the fifty-two weeks ended 29 September 2001. Prior period comparative figures are stated for a fifty-three week accounting period.

The accounting reference date of the company is 30 September and financial statements are drawn up to a Saturday within seven days of that date.

PRINCIPAL ACTIVITIES

The principal activity of the company is the distribution and delivery of premium parcel services.

RESULTS FOR THE PERIOD

The results for the period are set out on page 6 the financial statements and show a loss on ordinary activities before taxation of £15,279,000 (2000: 53 weeks – loss £4,034,000) on turnover of £15,236,000 (2000: 53 weeks - £22,297,000).

The Red Star rail activity was heavily impacted upon by the Hatfield derailment tragedy on 17 October 2000 and, after reviewing all available options, a decision was made to close down this activity on 25 May 2001. The results for the year include the accelerated operating losses of £3,176,000 (2000 - £1,065,000) and exceptional closure costs of £10,792,000 relating to the Red Star rail-based business. An analysis of the closure costs is given in note 4 to the accounts.

The directors do not recommend the payment of a final dividend on the ordinary shares of £1 each.

DIRECTORS

Directors who have served throughout the period and to the date of this report unless otherwise indicated are as follows:

DJR Burtenshaw
JW Coates
S Dennison

RED STAR PARCELS LIMITED

DIRECTORS REPORT FOR THE PERIOD ENDED 29 SEPTEMBER 2001

DIRECTORS' INTERESTS

The directors who held office at the end of the financial period had no interest in the shares or debentures of the company.

Directors' interests in the shares of Lynx Express Limited the Ultimate Parent Company are shown below:

	<u>29 September 2001</u>	<u>30 September 2000</u>
	Number	Number
Shares of Lynx Express Limited		
<u>A Ordinary shares of £1 each</u>		
S Dennison	1,549	-
<u>C Preference shares of £1 each</u>		
S Dennison	1,356	-
<u>B Ordinary Share options</u>		
S Dennison	8,000	4,000

On 17 July 2000 the trustees of the Lynx Express Share Trust sold 1,549 Lynx Express Limited "A" Ordinary shares of £1 each and 1,356 Lynx Express Limited "C" Preference shares of £1 each to Mr S Dennison.

On 15 February 1999, 4000 B Ordinary share options under the Lynx Express Limited Management Share Option Scheme were issued to Mr S Dennison. The exercise period for these shares is 7 years from 15 February 1999 at an exercise price of £1 per share.

On 14 February 2000, 4000 B Ordinary share options under the Lynx Express Limited Management Share Option Scheme were issued to Mr S Dennison. The exercise period for these shares is 7 years from 14 February 2000 at an exercise price of £1 per share.

DJR Burtenshaw is a director of Lynx Express Limited and his interests in the shares of Lynx Express Limited, the Ultimate Parent Company, are shown in that company's financial statements.

JW Coates is a director of Lynx Express Limited and his interests in the shares of Lynx Express Limited, the Ultimate Parent Company, are shown in that company's financial statements.

DONATIONS

No charitable donations were paid in the period (2000 - £nil).

No political donations were made in the period (2000 - £nil).

RED STAR PARCELS LIMITED

DIRECTORS REPORT FOR THE PERIOD ENDED 29 SEPTEMBER 2001

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 29 September 2001, the company had an average of 21 days (2000 - 36 days) purchases outstanding in trade creditors.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. 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 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 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 PERIOD ENDED 29 SEPTEMBER 2001

AUDITORS

The auditors, PricewaterhouseCoopers have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment and authorising the directors to fix their remuneration was passed by the directors.

By Order of the Board

A handwritten signature in black ink, appearing to be 'JR Homer', written in a cursive style.

JR HOMER
Company Secretary
8 March 2002

PricewaterhouseCoopers
Temple Court
35 Bull Street
Birmingham B4 6JT
Telephone +44 (0) 121 265 5000
Facsimile +44 (0) 121 265 5050

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

We have audited the financial statements which comprise the profit and loss account and 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.

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.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

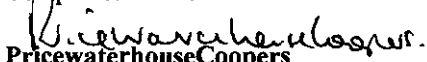
Basis of audit opinion

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 29 September 2001 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Birmingham
8 March 2002

RED STAR PARCELS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 29 SEPTEMBER 2001

Notes	52 weeks			53 weeks		
	Before Exceptional Items 2001	Exceptional Items 2001	Total 2001	Before Exceptional Items 2000	Exceptional Items 2000	Total 2000
	£'000	£'000	£'000	£'000	£'000	£'000
TURNOVER						
Continuing operations	9,161	-	9,161	10,244	-	10,244
Discontinued operations	6,075	-	6,075	12,053	-	12,053
Total Turnover	15,236	-	15,236	22,297	-	22,297
Operating charges	(19,718)	-	(19,718)	(26,033)	(99)	(26,132)
Continuing operations	(1,306)	-	(1,306)	(2,671)	-	(2,671)
Discontinued operations	(3,176)	-	(3,176)	(1,065)	(99)	(1,164)
OPERATING LOSS	(4,482)	-	(4,482)	(3,736)	(99)	(3,835)
Discontinued operations: Closure costs	-	(10,792)	(10,792)	-	-	-
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST	(4,482)	(10,792)	(15,274)	(3,736)	(99)	(3,835)
Interest payable	(5)	-	(5)	(199)	-	(199)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(4,487)	(10,792)	(15,279)	(3,935)	(99)	(4,034)
Tax on ordinary activities			-			-
LOSS FOR THE FINANCIAL PERIOD			(15,279)			(4,034)

Movements on reserves during the period are shown in note 15 to the financial statements.

The notes on pages 8 to 19 form part of these financial statements.

The group has no recognised gains and losses other than the loss shown above and therefore no separate statement of total recognised gains and losses has been presented.

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

RED STAR PARCELS LIMITED

BALANCE SHEET – 29 SEPTEMBER 2001

	Notes	<u>29 September 2001</u>		<u>30 September 2000</u>	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	9		-		869
CURRENT ASSETS					
Debtors falling due after one year	10	369		3,930	
Debtors falling due within one year	10	-		2,231	
Cash at bank and in hand		-		18	
		<u>369</u>		<u>6,179</u>	
CREDITORS (amounts falling due within one year)	11	<u>(18,447)</u>		<u>(12,333)</u>	
NET CURRENT LIABILITIES			(18,078)		(6,154)
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>(18,078)</u>		<u>(5,285)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	12		<u>(2,543)</u>		<u>(57)</u>
NET LIABILITIES			<u>(20,621)</u>		<u>(5,342)</u>
CAPITAL AND RESERVES					
Called up share capital	14		3,550		3,550
Share premium account	15		1,364		1,364
Capital reserve	15		4,081		4,081
Profit and loss account	15		<u>(29,616)</u>		<u>(14,337)</u>
EQUITY SHAREHOLDERS' FUNDS	16		<u>(20,621)</u>		<u>(5,342)</u>

The notes on pages 8 to 19 form part of these financial statements.

The financial statements were approved by the Board on 8 March 2002 and signed on their behalf by:



DJR BURTENSHAW
DIRECTOR

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001

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) Fixed assets and depreciation

Depreciation of tangible fixed assets (excluding freehold land which is not depreciated) is calculated on the straight-line basis at rates estimated to write off the cost of each asset over its estimated useful life. Assets that are not expected to be held for the whole of their useful life are written down to estimated residual values at the expected times of disposal. The categories of tangible fixed assets are as follows:

Building improvements	-	3 - 7 years
Plant and equipment	-	4 years
Motor vehicles	-	4 years
Computer equipment	-	2 years

(4) 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 period.

(5) 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.

The benefit of rent-free periods received from landlords as an incentive to sign an operating lease are spread on a straight line basis over the lease term, or if shorter than the full lease term, over the period to the next rent review.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

(6) 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 19.

(7) Taxation

The charge for taxation is based on the profit/loss for the period 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 tax only to the extent that it is probable that an actual liability will crystallise.

(8) 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.

(9) 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.

(10) Related party transactions

The company has taken advantage of the exemption not to disclose related party transactions with other members of the group under Financial Reporting Standard No. 8 (Related Party Disclosures) as it is a wholly owned subsidiary

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.

Discontinued operations

The company's turnover and operating loss from discontinued operations reflect its Red Star rail operation which was based in the UK and was closed on 25 May 2001.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

3 OPERATING CHARGES

	<u>Continuing</u> 29 September 2001 (52 weeks) £'000	<u>Discontinued</u> (52 weeks) £'000	<u>Total</u> (52 weeks) £'000	<u>Continuing</u> 30 September 2000 (53 weeks) £'000	<u>Discontinued</u> (53 weeks) £'000	<u>Total</u> (53 weeks) £'000
Raw materials, consumables and other purchases	260	135	395	354	1,054	1,408
Staff costs						
Wages and salaries	775	2,790	3,565	1,206	5,109	6,315
Social security costs	66	187	253	58	457	515
Other pension costs (note 19)	18	3	21	56	17	73
Depreciation of tangible fixed assets (including depreciation recharged by Group)	10	233	243	52	546	598
Depreciation on leased assets	-	-	-	-	125	125
Operating lease rentals (including short term hire)						
Revenue earning vehicles	111	10	121	144	29	173
Plant and machinery	44	158	202	47	400	447
Land and buildings	10	622	632	22	1,358	1,380
Auditors' remuneration						
-audit	-	11	11	-	23	23
-non audit services	-	-	-	-	-	-
Other operating charges	9,173	5,102	14,275	10,976	4,000	14,976
Operating charges before exceptional items	10,467	9,251	19,718	12,915	13,118	26,033
<u>Exceptional items</u>						
Re-organisation costs – redundancy	-	-	-	-	527	527
	-	-	-	-	(428)	(428)
Profit on termination of finance lease						
	10,467	9,251	19,718	12,915	13,217	26,132

Previous period exceptional items include redundancy costs of £527,000, which relate to the closure of a number of loss-making parcel points and supporting infrastructure in March 2000. In addition, an onerous finance lease obligation was terminated. This resulted in the related computer equipment being acquired at a settlement figure, which generated a profit on lease termination of £428,000.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

4 LOSS ON TERMINATION OF RED STAR RAIL OPERATION

	29 September <u>2001</u> 52 weeks £'000	30 September <u>2000</u> 53 weeks £'000
Write off of Red Star pension prepayment	4,021	-
Redundancy	3,455	-
Information technology costs	1,465	-
Cost of closing rail station based parcel points	1,091	-
Write down in value of Red Star tangible fixed assets	645	-
Other	115	-
	<u>10,792</u>	<u>-</u>

On 25 May 2001, the business activities of the group were fundamentally re-organised, which resulted in the closure of the company's Red Star rail operation.

5 INTEREST PAYABLE AND SIMILAR CHARGES

	29 September <u>2001</u> 52 weeks £'000	30 September <u>2000</u> 53 weeks £'000
Bank loans and overdrafts	5	154
Interest payable under finance lease arrangements	-	45
	<u>5</u>	<u>199</u>

6 DIRECTORS' EMOLUMENTS

	29 September <u>2001</u> 52 weeks £'000	30 September <u>2000</u> 53 weeks £'000
The aggregate amount of directors' emoluments excluding pension contributions which reflects their services to the company:	-	48

No emoluments were paid to, or receivable by, Mr S Dennison, in respect of his qualifying services for the company, during the period.

Amounts paid to third parties in respect of directors' services

-	-
---	---

Retirement benefits are accruing to the following number of directors under:

Defined benefit schemes

-	-
---	---

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

7 EMPLOYEES

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

	29 September 2001	30 September 2000
	Number	Number
<u>Full Time</u>		
Management and supervisory	31	50
Clerical and wage grade	102	274
	<u>133</u>	<u>324</u>
<u>Part Time</u>		
Clerical and wage grade	16	50
	<u>16</u>	<u>50</u>
Total	<u>149</u>	<u>374</u>

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

There is no liability for corporation tax or deferred tax in the current or previous period due to losses incurred during the period. The company has estimated tax losses amounting to approximately £8,902,000 (2000 - £8,197,000) available to carry forward and offset against future taxable profits. As a consequence the company has a substantial deferred tax asset in the current and previous period which has not been recognised.

The effect on the corporation tax charge for the period of terminating the Red Star rail operation (see note 4) in May 2001 is £nil.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

9 TANGIBLE FIXED ASSETS

	Long Leasehold land and <u>Buildings</u> £000	Plant and <u>Machinery</u> £000	<u>Total</u> £000
<u>Cost</u>			
At 30 September 2000	37	2,361	2,398
Disposals	(37)	(2,361)	(2,398)
	<u>-</u>	<u>-</u>	<u>-</u>
At 29 September 2001	<u>-</u>	<u>-</u>	<u>-</u>
<u>Depreciation</u>			
At 30 September 2000	20	1,509	1,529
Charge for the period	6	222	228
Disposals	(26)	(1,731)	(1,757)
	<u>-</u>	<u>-</u>	<u>-</u>
At 29 September 2001	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net book value</u>			
At 29 September 2001	<u>-</u>	<u>-</u>	<u>-</u>
At 30 September 2000	<u>17</u>	<u>852</u>	<u>869</u>

- (a) At 29 September 2001 the company owned no revenue earning vehicles.
- (b) Assets held under finance lease are included within Plant and Machinery at a cost of £nil (2000 - £nil) and accumulated depreciation of £nil (2000 - £nil).
- (c) Disposals for the period represent fixed assets written-off following the closure of the Red Star rail operation.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

10 DEBTORS

	29 September 2001 £'000	30 September 2000 £'000
Amounts falling due within one year:		
Trade debtors	-	1,717
Amounts owed by parent undertaking	273	273
Other debtors	45	165
Other taxation and social security recoverable	39	-
Prepayments and accrued income	12	76
	<u>369</u>	<u>2,231</u>
Amounts falling due after more than one year:		
Pension scheme surplus	-	3,930
	<u>369</u>	<u>6,161</u>

11 CREDITORS (amounts falling due within one year)

	29 September 2001 £'000	30 September 2000 £'000
Bank overdraft	9	806
Trade creditors	1,120	1,759
Amounts owed to group undertaking	16,734	8,377
Other creditors	510	398
Other taxation and social security	-	330
Accruals and deferred income	74	663
	<u>18,447</u>	<u>12,333</u>

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

12 PROVISIONS FOR LIABILITIES AND CHARGES

	<u>Red Star Closure</u>	<u>Dilapidation Provision</u> £'000	<u>Claims and Other</u> £'000	<u>Total</u> £'000
At 30 September 2000	-	21	36	57
Charge to profit and loss	3,286	19	-	3,305
Released to profit and loss	-	-	(36)	(36)
Utilised in the period	(783)	-	-	(783)
	<hr/>	<hr/>	<hr/>	<hr/>
At 29 September 2001	2,503	40	-	2,543
	<hr/>	<hr/>	<hr/>	<hr/>

The Red Star closure provision relates to various obligations arising from the closure of the Red Star rail operation and, primarily comprise operating lease commitments, utility / service charges and IT related costs. Utilisation is likely to occur over several years.

A dilapidations provision is held for the company's contractual obligation to redecorate the interiors of its leased locations. Utilisation is likely to occur over several years as and when required.

13 LEASING COMMITMENTS

At 29 September 2001 the company had commitments during the next financial year in respect of non-cancellable operating leases as follows:

	<u>Land and buildings</u> £'000	<u>Plant and machinery</u> £'000
Within one year	170	115
Between one and five years	-	49
After five years	203	-
	<hr/>	<hr/>
	373	164
	<hr/>	<hr/>

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

14 CALLED UP SHARE CAPITAL

	<u>29 September 2001</u> £'000	<u>30 September 2000</u> £'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

15 RESERVES

	<u>Share premium account</u> £000	<u>Capital reserve</u> £000	<u>Profit and loss account</u> £000
At 30 September 2000	1,364	4,081	(14,337)
Loss for the financial period	-	-	(15,279)
At 29 September 2001	1,364	4,081	(29,616)

16 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	<u>Period ended</u> <u>29 September</u> <u>2001</u> £'000	<u>Period ended</u> <u>30 September</u> <u>2000</u> £'000
Loss for the financial period and net movement in shareholders' funds	(15,279)	(4,034)
Opening shareholders' funds	(5,342)	(1,308)
Closing shareholders' funds	(20,621)	(5,342)

17 CAPITAL COMMITMENTS

At 29 September 2001, there was no capital expenditure authorised by the Board and contracted for but not provided in these financial statements (2000 - £nil).

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

18 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.

19 PENSION COSTS

Railways Pension Scheme

Red Star 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 and its subsidiaries. The BR privatisation process required that on acquisition (5 September 1995) a separate section of the RPS be established for Red Star in order to enable employees to continue to accrue pension benefits in the RPS. In accordance with FRS7, the pension scheme prepayment was calculated to be £3.391 million as at 5 September 1995. In accordance with actuarial advice received by the Trustee of the RPS, the Company paid contributions at the rate of 7.5% of Section Pay to the RPS between the date of acquisition and 31 December 1997.

The most recent actuarial valuation of the Red Star section was undertaken with an effective date of 31 December 1998. This valuation showed that the market value of the section assets was £17.6 million and that the actuarial value of those assets represented 129% of the benefits that had accrued to members after allowing for expected future increases in earnings. The results also indicated that the normal joint contribution rate required to finance benefits attributable to future service would be 25.3% of Section Pay and that the current Company contribution rate of 7.5% of Section Pay could be expected to be maintained until September 2003 (the RPS required that the total cost is shared in such a way that the employer contributes 1.5 times the members' contributions).

The actuarial method used for these calculations was the projected-unit method. The assumptions which have the most significant effect on these calculations are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that the investment returns would be 6.75% per annum, that general salary increases would average 4.5% per annum excluding promotional scale, and that present and future pensions would increase at the rate of 3.0% per annum. Dividend growth on UK equities was taken to be 3.75% p.a.

The charge in respect of the Railways Pension Scheme during the period amounted to £4,000,000 (2000 - £35,000). The increased charge in the current period reflects the writing off of the pension prepayment in respect of the Red Star section of the Railways Pension Scheme. This was considered appropriate following the closure of the Red Star rail operation in May 2001 and the subsequent fall in the number of active members.

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

19 PENSION COSTS (CONTINUED)

FRS 17 information for the Red Star section of the Railways Pension Scheme

The most recent actuarial valuation, as at December 1998, has been updated to 29 September 2001 to provide the information required for FRS17. The major assumptions used by the qualified independent actuary in providing this estimate were:

Inflation	2.5%
Rate of increase in salary	4.0%
Rate of increase in pensions in payment	2.5%
Rate of increase for deferred pensions	2.5%
Discount rate	6.0%

The assets in the defined benefit scheme and the expected rate of return were:

	Long-term rate of return expected at 29 September 2001	Value at 29 September 2001 £000
Equities	8.1%	1,335
Bonds	5.5%	14,847
Property	8.1%	1,100
Total		<u>17,282</u>

The following amounts relating to the defined benefit section of the scheme, as at 29 September 2001, were measured in accordance with the requirements of FRS17:

	£000
Total market value of assets	17,282
Present value of scheme liabilities	(12,048)
Surplus before employee share	<u>5,234</u>
Less:	
Employees' share of surplus	(2,032)
Unrecoverable surplus	(2,439)
Employer's share of surplus	<u>763</u>
Related deferred tax liability	(229)
Net pension asset	<u>534</u>

RED STAR PARCELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 29 SEPTEMBER 2001 (CONTINUED)

19 PENSION COSTS (CONTINUED)

FRS 17 information for the Red Star section of the Railways Pension Scheme (Continued)

If the above amounts had been recognised in the financial statements, the company's net liabilities and profit and loss deficit at 29 September 2001 would be as follows:

	£000
Net liabilities excluding pension asset	(20,621)
Pension asset	534
	<hr/>
Net liabilities including pension asset	(20,087)
	<hr/>
Profit and loss deficit excluding pension asset	(29,616)
Pension asset	534
	<hr/>
Profit and loss deficit including pension asset	(29,082)
	<hr/>

20 ULTIMATE PARENT UNDERTAKING

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

The Company's ultimate parent undertaking is LYNX Express Limited. Copies of the consolidated financial statements can be obtained from the Company Secretary, LYNX Express Limited, 1 St George's Way, Bermuda Industrial Estate, Nuneaton, CV10 7JS.