

VT Critical Services Limited
*(formerly VT Vehicle Solutions Limited
and Lex Transfleet Limited)*

Directors' report and financial statements

Registered number SC046710

31 March 2007



VT Critical Services Limited

Directors' report and financial statements

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VT Critical Services Limited

Directors' report and financial statements

The directors' report and the business review

The directors present their annual report and the audited financial statements for the period ended 31 March 2007

Principal activity

The principal activity of the company is the provision of commercial vehicles for leasing and related logistics support services

On 5 May 2006 the company changed its name from Lex Transfleet Limited to VT Vehicle Solutions Limited. On 2 April 2007 the company changed its name from VT Vehicle Solutions Limited to VT Critical Services Limited

Business review

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Turnover	91,257	143,346
Operating profit	7,213	12,154

On 28 April 2006, the company was acquired by VT Support Services Limited (a wholly owned subsidiary of VT Group plc), from Aviva plc. The acquisition led to a change in accounting reference date, from 25 December to 31 March, in line with other companies within the VT Group

The company has continued to build upon the organisational changes made in the previous period, during which the sale of the Commercial Fleet Division to Fraikin Ltd was completed. The decreases in turnover and operating profit since the previous period (36% and 41% respectively) reflect the impact of this reorganisation, although the removal of the Commercial Fleet Division's results was partially mitigated by the commencement of a contract to service the vehicle fleet of the Metropolitan Police. This contract, awarded to the company in November 2005, began as planned in April 2006, an excellent relationship with the customer has ensured that it has proved both a commercial and financial success, as well as demonstrating the company's abilities within the Emergency Services sector

The company's Airside and Defence sectors have continued to perform strongly. The company successfully transitioned from the Aldershot contract, as part of the PMAL consortium, to the Land Managed Services subcontract with Aspire. The company's performance on this contract, along with that on the Whitefleet sub contract, has continued to ensure a strong and open working relationship with the MoD

Management uses all relevant financial information in operating the company's contracts and in controlling its cost base. Individual contracts have key performance indicators integrated into their terms and conditions and these are monitored by management on a regular basis

The company's business is susceptible to individual contract performance, particularly where contracts carry pre determined rebate levels in potential cases of under achievement. In addition, turnover and profits relating to the Land Managed Services and Whitefleet Contract Hire contracts are susceptible to MoD demand, in turn affected by changes in government policy, budget allocations and the changing political environment. The directors manage this risk by maintaining regular discussions with the relevant customers and controlling both direct and indirect expenditure as necessary

VT Critical Services Limited

Directors' report and financial statements

The directors' report and the business review *(continued)*

Business review *(continued)*

The company's ongoing commitment to customer satisfaction and its current contract base ensure that the future prospects of the business are good. During the financial year ending 31 March 2008, further opportunities in the Emergency Services and Airside sectors are being pursued, which along with the company's name change post year end, will strengthen the VT Critical Services brand.

Dividends

Dividends paid during the period comprise an interim dividend of £10,886,000 in respect of the period ended 31 March 2007.

Directors and directors' interests

The directors of the company during the period were as follows:

PR Harris	(resigned 27 April 2006)
SCJ Machell	(resigned 27 April 2006)
MJ Lewis	(resigned 3 February 2006)
CJ Cundy	(appointed 27 April 2006)
SE Tarrant	(appointed 27 April 2006, resigned 31 March 2007)
J Davies	(appointed 31 March 2007)

Creditor payment policy

The company is responsible for agreeing the terms and conditions under which business transactions with suppliers are conducted. It is company policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all the relevant terms and conditions. It is the company's policy not to formally follow any code or standard on payment practice.

The number of days' purchases outstanding for payment by the company at the period end was 30 days (2005 15 days).

Fixed assets

The company's freehold properties were last valued in May 1994 at open market value on the basis of existing use. This valuation has not been incorporated in the financial statements as the directors consider there is no permanent diminution in the value of the properties.

Charitable and political donations

During the period the company contributed £1,815 (2005 £600) to charitable organisations. There were no political donations during the period.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

VT Critical Services Limited
Directors' report and financial statements

The directors' report and the business review *(continued)*

Auditors

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

By order of the Board

A handwritten signature in black ink, appearing to be 'MP Jowett', written over a horizontal line.

MP Jowett
Secretary

5 July 2007

VT Critical Services Limited
Directors' report and financial statements

Statement of directors' responsibilities in respect of the director's report and financial statements

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 these 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities



KPMG Audit Plc

Dukes Keep
Marsh Lane
Southampton
Hampshire SO14 3EX

Independent auditors' report to the members of VT Critical Services Limited

We have audited the financial statements of VT Critical Services Limited for the period ended 31 March 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

Independent auditors' report to the members of VT Critical Services Limited
(continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

KPMG Audit Plc

1 August 2007

KPMG Audit Plc
Chartered Accountants
Registered Auditor

VT Critical Services Limited
Directors' report and financial statements

Profit and loss account

for the period ended 31 March 2007

		66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
	<i>Notes</i>		
Turnover	2		
continuing		91,257	61,657
discontinued			81,689
		91,257	143,346
Depreciation of tangible fixed assets		(10,142)	(26,127)
Other operating income			84
Other operating charges		(73,902)	(105,149)
Operating profit			
continuing		7,213	6,469
discontinued			5,685
		7,213	12,154
Loss on termination of an operation		-	(16,608)
Profit/(loss) on ordinary activities before interest		7,213	(4,454)
Income from shares in group undertakings		1,486	
Interest receivable and similar income	5	230	238
Interest payable and similar charges	6	(2,148)	(4,325)
Profit/(loss) on ordinary activities before taxation	7	6,781	(8,541)
Tax on profit/(loss) on ordinary activities	8	(1,616)	309
Profit/(loss) for the financial period	19	5,165	(8,232)

There is no difference between the profit (2005 loss) on ordinary activities before taxation and the profit (2005 loss) for the financial period stated above, and their historical cost equivalents

VT Critical Services Limited
Directors' report and financial statements

Statement of total recognised gains and losses
for the period ended 31 March 2007

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Profit/(loss) for the financial period	5,165	(8,232)
Prior year adjustment (see note 19)	<u>(2,250)</u>	<u></u>
Total gains and losses recognised since last annual report	<u>2,915</u>	<u>(8,232)</u>

VT Critical Services Limited
Directors' report and financial statements

Balance sheet

at 31 March 2007

	Notes	31 March 2007 £000	25 December 2005 £000 <i>restated</i>
Fixed assets			
Tangible assets	10	59,903	57,085
Investments	12	644	644
		<u>60,547</u>	<u>57,729</u>
Current assets			
Stocks	13	216	74
Debtors	14	11,146	31,186
Cash at bank and in hand		10,274	3
		<u>21,636</u>	<u>31,263</u>
Creditors amounts falling due within one year	15	<u>(22,058)</u>	<u>(55,851)</u>
Net current liabilities		<u>(422)</u>	<u>(24,588)</u>
Total assets less current liabilities		60,125	33,141
Creditors amounts falling due after more than one year	16	<u>(34,541)</u>	<u>(3,214)</u>
Provisions for liabilities and charges	17	<u>(4,196)</u>	<u>(2,871)</u>
Net assets		<u>21,388</u>	<u>27,056</u>
Capital and reserves			
Called up share capital	18	19,908	19,908
Capital reserve	19	53	
Profit and loss account	19	1,427	7,148
Shareholders' funds	20	<u>21,388</u>	<u>27,056</u>

These financial statements were approved by the board of directors on 5 July 2007 and were signed on its behalf by


CJ Cundy
 Director

VT Critical Services Limited

Directors' report and financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

The financial statements have been prepared on the going concern basis because the company's ultimate parent undertaking has confirmed that it will provide such financial and other support as is necessary to enable the company to trade for the foreseeable future

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention. The company is exempt by virtue of S228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (1996 Revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

In addition advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with VT Group plc or other group undertakings as the consolidated financial statements of VT Group plc in which the company is included are publicly available.

A prior year adjustment has been made to recognise a change in accounting policy upon acquisition of the company by VT Support Services Limited. In line with VT Group plc policy, a deferred income balance has been established to ensure that revenue is only recognised on performance of maintenance work. The net effect on the profit and loss account brought forward and opening shareholders' funds is a reduction of £2,250,000, being a gross provision of £3,214,000 less an associated tax credit of £964,000.

The company has complied with the Statement of Recommended Practice on Accounting Issues in the Asset Finance and Leasing Industry, issued by the Finance & Leasing Association.

The principal activity of the company is the provision of commercial vehicles for leasing and related logistics support services.

The principal risks of the company are

(i) Residual value risk

Residual value risk arises in relation to a leasing transaction to the extent that the actual value of the leased asset at the end of the lease term (the residual value) recovered through disposing of or re-letting the asset at the end of the lease term, could be different to that projected at the time that the lease inception. The company policy is to reduce their residual value risk by securing "guaranteed buy back" agreements with the manufacturer of their fleet wherever possible. Where this is not possible residual value exposure is regularly monitored by the business through reviewing the recoverability of the residual value projected at lease inception. Provision is made in accordance with FRS 11 to the extent that the carrying value of the assets is impaired through residual values not being fully recoverable.

VT Critical Services Limited

Directors' report and financial statements

Notes *(continued)*

1 Accounting policies *(continued)*

Basis of preparation *(continued)*

(ii) Maintenance risk

The company provides maintenance in consideration for contracted rentals from the lessee during the lease term. Where the company bears the risk that related costs will be different to those initially anticipated, the company monitors projected maintenance activities and related costs through the useful economic life of the assets, enabling any risk to be minimised.

Stocks

Stock is stated at the lower of cost and net realisable value.

Fixed assets and depreciation

Freehold and long leasehold land is not depreciated. The hire fleet comprises contract hire vehicles. Contract hire vehicles are depreciated to estimated residual values on a straight line basis over the life of the contract. Depreciation on property and equipment is provided on a straight line basis over the estimated useful lives as follows:

Freehold buildings	25 to 50 years
Vehicles	3 to 10 years
Computer peripherals, furniture, fittings, plant and equipment	3 to 7 years

Finance and operating leases receivable

Assets made available to third parties under finance leases are treated as amounts receivable and are disclosed in debtors. Assets held for operating leases are capitalised and held as fixed assets.

Net income from finance leases is credited to the profit and loss account in proportion to the funds invested. Credit is taken for income from operating leases in equal instalments over the life of the contract commencing at the time of delivery.

Leases

Where assets are financed by leasing arrangements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating lease. Their annual rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

VT Critical Services Limited

Directors' report and financial statements

Notes *(continued)*

1 Accounting policies *(continued)*

Investments in subsidiary and joint venture undertakings

Investments in subsidiary and joint ventures are stated at cost less provisions for any permanent diminutions in value

Pension costs

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged against profit represents the contributions payable to the scheme in respect of the accounting period.

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. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain tax items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. Deferred taxation assets are recognised only to the extent that in the opinion of the directors, there is a reasonable probability that the asset will crystallise in the foreseeable future.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Share based payments

The group share option programme allows employees to acquire shares of the parent company. The fair value of options granted after 7 November 2002 is recognised as an employee expense with a corresponding increase in equity, in the form of a parent company capital contribution. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

VT Critical Services Limited
Directors' report and financial statements

Notes *(continued)*

2 Turnover

Turnover derives from the leasing and hiring of commercial vehicles and related services. It represents lease income, rentals on operating leases and associated services credited to the profit and loss account during the period, all of which arises in the United Kingdom. The analysis of turnover is as follows:

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Operating leases	25,025	105,576
Finance leases		3,726
Associated services	66,232	34,044
	91,257	143,346

3 Staff numbers and costs

The average number of persons employed by the company during the period was as follows:

	Number of employees 66 weeks ended 31 March 2007	52 weeks ended 25 December 2005
Directors	2	6
Management and administration	140	
Operations	513	
Sales and marketing	140	
	795	6

The aggregate payroll costs of these persons were as follows:

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Wages and salaries	25,586	
Social security costs	2,293	
Other pension costs (see note 24)	4,021	
	31,900	

In 2005, all staff, excluding certain directors, were considered to be employees of RAC plc, the costs being recharged to this company by management charge.

VT Critical Services Limited
Directors' report and financial statements

Notes *(continued)*

4 Remuneration of directors

The emoluments of the directors, including pension contributions, paid by any Group company in respect of services provided to this company, are set out below

In the 66 week period ended 31 March 2007, no remuneration was payable to directors in respect of services to the company since those services were considered to be incidental to their other fiduciary duties. Directors' emoluments for Messrs Cundy and Tarrant are disclosed in the VT Group plc annual report and accounts

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Salary payments (including benefits in kind)		286
Pension contributions		47
		<u>333</u>

Retirement benefits are accruing to the following number of directors under

	66 weeks ended 31 March 2007	52 weeks ended 25 December 2005
Defined benefit schemes		<u>2</u>

The emoluments of the highest paid director amounted to £nil (2005 £286,000) and pension contributions amounted to £nil (2005 £47,000)

5 Interest receivable and similar income

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Inter company interest charged to subsidiaries	-	35
On other loans wholly repayable within five years	<u>230</u>	<u>203</u>
	<u>230</u>	<u>238</u>

VT Critical Services Limited
Directors' report and financial statements

Notes *(continued)*

6 Interest payable and similar charges

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Interest on amounts owed to group undertakings	2,107	361
To Lombard North Central Plc	-	3,857
On other loans wholly repayable within five years	41	107
	<u>2,148</u>	<u>4,325</u>

Up to and including April 2006, interest paid to group undertakings (£218,000) was in respect of the RAC group of companies (2005: £361,000)

7 Profit/(loss) on ordinary activities before taxation

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

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Auditor's remuneration	78	79
Operating lease rentals	112	2,577
plant and machinery other	-	1,288
Rent receivable from land and buildings	(142)	(84)
Loss on disposal of fixed assets	927	823
Depreciation of tangible fixed assets owned	10,142	26,127
Provision against investments	-	19,437
Write back of inter company creditor	-	(19,437)

Fees payable to the company's auditor for services other than the statutory audit of the company are disclosed on a consolidated basis in the consolidated financial statements of the company's ultimate parent



VT Critical Services Limited
Directors' report and financial statements

Notes (continued)

8 Taxation

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
<i>Current tax</i>		
UK corporation tax on profit/(loss) for the period	291	9,381
Adjustments in respect of previous periods	-	(89)
Total current tax charge	291	9,292
<i>Deferred tax</i>		
Origination and reversal of timing differences	1,312	(9,670)
Adjustments in respect of prior years	13	69
Total deferred tax charge/(credit)	1,325	(9,601)
Tax on profit/(loss) on ordinary activities	1,616	(309)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2005 *higher*) than the standard rate of corporation tax in the UK of 30% (2005 30%) The differences are explained below

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Profit/(loss) on ordinary activities before tax	6,781	(8,541)
Profit/(loss) on ordinary activities multiplied by standard rate in UK of 30% (2005 30%)	2,034	(2,562)
<i>Effects of</i>		
Expenses not deductible for tax purposes	15	83
Profit on sale of non qualifying fixed assets	-	(1,969)
Utilisation of brought forward tax losses	-	(914)
Transfer from reserves	-	5,133
Difference between capital allowances and depreciation	(1,434)	9,902
Other timing differences	122	(232)
Other items	-	(60)
Dividends received from subsidiary undertakings	(446)	
Adjustment to tax charge in respect of previous period	-	(89)
Current tax charge	291	9,292

VT Critical Services Limited
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Notes *(continued)*

8 Taxation *(continued)*

The current period's tax charge/(credit), excluding prior year adjustments, can be analysed between ordinary activities excluding exceptional items, and exceptional items as follows

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2006 £000
Ordinary activities excluding exceptional items		
UK corporation tax based on the taxable profit for the period of 30% (2006 30%)	291	2,765
Deferred tax	1,312	(182)
	1,603	2,583
Exceptional items		
UK corporation tax at 30%	-	6,616
Deferred tax	-	(9,488)
	-	(2,872)
	1,603	(289)
9 Dividends		
	2007 £000	2006 £000
Interim dividends paid in respect of the current year	10,886	

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Notes *(continued)*

10 Tangible fixed assets

	Freehold land £000	Freehold buildings £000	Motor vehicles £000	Equipment, fixtures & fittings £000	Total £000
Cost					
At beginning of period	1,929	3,087	71,793	1,105	77,914
Additions		694	10,107	2,944	13,745
Transfers		2,355	(2,598)	243	
Disposals		(807)	(2,562)	(148)	(3,517)
At end of period	<u>1,929</u>	<u>5,329</u>	<u>76,740</u>	<u>4,144</u>	<u>88,142</u>
Depreciation					
At beginning of period	61	1,073	19,246	449	20,829
Charge for period		113	9,350	679	10,142
Transfers		21	(27)	6	
Disposals		(807)	(1,925)		(2,732)
At end of period	<u>61</u>	<u>400</u>	<u>26,644</u>	<u>1,134</u>	<u>28,239</u>
Net book value					
At 31 March 2007	<u>1,868</u>	<u>4,929</u>	<u>50,096</u>	<u>3,010</u>	<u>59,903</u>
At 25 December 2005	<u>1,868</u>	<u>2,014</u>	<u>52,547</u>	<u>656</u>	<u>57,085</u>

The classification of fixed assets has been changed during the period, which has resulted in the reclassification of the opening fixed asset balances. These are as follows: freehold and short leasehold land and buildings, previously disclosed as £3,760,000 and £122,000 (net book value) respectively, have now been analysed between freehold land and freehold buildings. The hire fleet (brought forward net book value of £51,948,000) has been reclassified under motor vehicles together with other vehicles owned by the company.

The hire fleet is held for use under operating leases.

11 Residual values

Included in tangible fixed assets are unguaranteed residual values at the end of the current lease terms, which will be recovered through sale or re-leasing in the following periods:

	Operating leases	
	31 March 2007 £000	25 December 2005 £000
Within one year	12	134
Between one and two years	70	43
Between two and five years	4,903	379
Greater than five years		4,350
	<u>4,985</u>	<u>4,906</u>

VT Critical Services Limited
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Notes *(continued)*

12 Investments

	Shares in group undertakings £000	Shares in participating interests £000	Trade investments £000	Total £000
Cost				
At beginning and end of period	<u>31,103</u>	<u>25</u>	<u>2</u>	<u>31,130</u>
Provisions				
At beginning and end of period	<u>30,486</u>	<u> </u>	<u> </u>	<u>30,486</u>
Net book value				
At 31 March 2007	<u>617</u>	<u>25</u>	<u>2</u>	<u>644</u>
At 25 December 2005	<u>617</u>	<u>25</u>	<u>2</u>	<u>644</u>

The basis of the provision is to write down the investment in subsidiary undertakings to their underlying net asset value as disclosed in the latest statutory financial statements

The principal subsidiary undertakings are shown below

Company	Principal activity	Class of share held	Country of incorporation	% of ordinary shares held
Transfleet Truck Rentals Limited	Non trading	Ordinary	Great Britain	100
Chart Services Limited	Non trading	Ordinary	Great Britain	100
Chadmore Assets Plc	Non trading	Ordinary	Great Britain	100

The company holds a 50% equity shareholding in Whitefleet Limited (formerly Lex Defence (Whitefleet) Limited), a company incorporated in Great Britain. The remaining 50% is held by Lex Vehicle Leasing (Holdings) Limited.

The principal activity of Whitefleet Limited is the provision of contract management services to VT Land (Whitefleet Management) Limited specifically in relation to a ten year contract obtained by that company with the Ministry of Defence.

13 Stocks

	31 March 2007 £000	25 December 2005 £000
Vehicle spare parts, fuel and consumables	<u>216</u>	<u>74</u>

VT Critical Services Limited
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Notes *(continued)*

14 Debtors

	31 March 2007 £000	25 December 2005 £000
Amounts falling due within one year		
Trade debtors	5,609	1,854
Amounts owed by group undertakings	4,530	3,479
Amounts owed by joint venture undertakings	-	24
Other debtors (including deferred consideration of £nil (2005 £23,518,000))	1,007	24,554
Prepayments and accrued income		<u>1,275</u>
	<u>11,146</u>	<u>31,186</u>

The cost of assets acquired during the period for the purpose of letting under finance leases amounted to £nil (2005 £898,000)

15 Creditors: amounts falling due within one year

	31 March 2007 £000	25 December 2005 £000
Bank overdraft		3,289
Trade creditors	4,322	4,014
Amounts owed to group undertakings		
Loans	3,000	17,998
Other	1,147	3,652
Amounts owed to joint venture undertakings	381	
Other creditors	4,027	2,321
Corporation tax	219	5,871
Group relief	-	2,412
Other taxes and social security	1,002	944
Accruals and deferred income	7,960	<u>15,350</u>
	<u>22,058</u>	<u>55,851</u>

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Notes *(continued)*

16 Creditors: amounts falling due after more than one year

	31 March 2007 £000	25 December 2005 £000 <i>restated</i>
Amounts owed to group undertakings – loans	30,430	
Accruals and deferred income	4,111	3,214
	34,541	3,214

Amounts owed to group undertakings represent a unsecured term loan with VT Support Services Limited, repayable over five years. Repayments due within one year are included within Creditors, amounts falling due within one year. A market rate of interest is charged and accrued within the carrying value of the loan.

Details of the prior year adjustment are given in note 19 of these accounts.

17 Provisions

	Deferred tax £000
At beginning of period	
As previously stated	3,835
Prior year adjustment	(964)
As restated	2,871
Profit and loss account	1,325
At end of period	4,196

Details of the prior year adjustment are given in note 19 of these accounts.

The balance provided comprises

	31 March 2007 £000	25 December 2005 £000
Accelerated capital allowances	5,359	3,925
Other timing differences	(1,163)	(1,054)
	4,196	2,871

There was no unprovided deferred tax liability at either period end.

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Notes *(continued)*

18 Called up share capital

	31 March 2007 £000	25 December 2005 £000
Authorised		
34,908,300 ordinary shares of £1 each	<u>34,908</u>	<u>34,908</u>
Allotted, called up and fully paid		
19,908,300 ordinary shares of £1 each	<u>19,908</u>	<u>19,908</u>

19 Reserves

	Capital Reserve £000	Profit and loss account £000
At beginning of period		
As previously stated		9,398
Prior year adjustment		<u>(2,250)</u>
As restated		7,148
Profit for the period		5,165
Dividends paid		(10,886)
Capital contribution relating to share based payments	<u>53</u>	
At end of period	<u>53</u>	<u>1,427</u>

Prior year adjustment

The prior year adjustment relates to a change in accounting policy upon acquisition of the company by VT Support Services Limited. In line with VT Group plc policy, a deferred income balance has been established to ensure that revenue is only recognised on performance of maintenance work.

The net effect on the profit and loss account brought forward and opening shareholders' funds is a reduction of £2,250,000, being a gross provision of £3,214,000 less an associated tax credit of £964,000.

Share based payments

Employees of the company participate in the following share plans operated by the parent company.

Share option plans

The group operates two share option plans under which directors and other executives are eligible to participate at the discretion of the remuneration committee. Options are granted at market value, determined immediately before the grant.

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Notes *(continued)*

19 Reserves *(continued)*

Share based payments *(continued)*

Share options vest in equal tranches on the 3rd 4th and 5th anniversaries of the date of the grant subject to achievement of a performance condition. The performance condition currently applying is real growth in earnings per share of at least 2% per annum over three consecutive years. These share options have a maximum life of 10 years.

Share incentive plan (SIP)

The group operates a share incentive plan open to all employees. Under this plan employees are granted share options subject to the group meeting certain financial profit targets. Options are granted at the market value on date of the award and vest unconditionally if the employee remains in service for a period of 3 years from the date of the award. The contractual life of the options is five years and there are no cash settlement alternatives.

Employee Share Option Savings Plans (ESOP)

The Group operates Share Option Savings Plans for all eligible employees, whereby employees can save towards the exercise price payable for an award of share options. The exercise price of these options is set at 90% of the market value of the share price at the date of grant. Under awards granted by the group, the savings period is either 3 or 5 years. At the end of the savings period, the options vest and the option holders have a 6 month window in which to exercise their options.

The number and weighted average exercise price of share options are as follows

	2007		2006	
	Number of options	Weighted average exercise price (p)	Number of options	Weighted average exercise price (p)
Granted during the year	214,239	414		
Forfeited during the year	(7,519)	410		
Outstanding at end of year	206,720	414		

The options outstanding at the year end have an exercise price in the range of 410p to 489p and a weighted average contractual life of 4.2 years.

Share option valuation assumptions

The fair value of options granted were measured using the Black Scholes method for the share option plans and Employee Share Options Savings Plans, the Monte Carlo method for the grants under the Long Term Incentive Plan, and a simplified Black Scholes method for the matching shares granted within the Long Term Incentive Plan. The weighted average assumptions used in determining fair value of options granted were as follows

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Notes *(continued)*

19 Reserves *(continued)*

Share based payments *(continued)*

	Long term incentive plan		Share options plans		Share options savings plans	
	2007	2006	2007	2006	2007	2006
Dividend yield	2.2%		2.3%		2.4%	
Expected volatility	21.0%		22.6%		21.2%	
Risk free interest rate	4.7%		4.7%		4.7%	
Expected life	3 years		5 years		4 years	
Exercise price	484p		465p		415p	

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur

The Long Term Incentive Plan includes a market vesting condition linked to the Total Shareholder Return ('TSR') of a comparator group which requires the volatility of comparator companies' share prices and the average correlation between the share prices of the company and the comparator companies to be considered in assessing the fair value of options granted. The following approach has been adopted for these items:

Comparator company volatility – annualised, daily historic volatility assessed over a period prior to the date of grant that corresponds to the period over which the TSR is being projected,

Company correlation – taken as the average correlation of TSR between all of the companies over the same historic period

Compensation expense

	2007	2006
	£000	£000
Equity settled share based payments	53	

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Notes *(continued)*

20 Reconciliation of movements in shareholders' funds

	31 March 2007 £000	25 December 2005 £000 <i>restated</i>
Profit/(loss) on ordinary activities after taxation	5,165	(8,232)
Dividends paid	(10,886)	
	(5,721)	(8,232)
Goodwill written off in the profit and loss account on the disposal of the business		17,109
Capital contribution relating to share based payments	53	
Net (reduction)/addition to shareholders' funds	(5,668)	8,877
Opening shareholders' funds as previously stated	29,306	20,429
Prior year adjustment (see note 19)	(2,250)	(2,250)
Opening shareholders' funds as restated	27,056	18,179
Closing shareholders' funds	21,388	27,056

21 Financial commitments

Annual commitments under non cancellable operating leases are as follows

	31 March 2007		25 December 2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire				
Within one year		50	108	
Within two to five years		98	90	
Over five years		4	301	
	-	152	499	

22 Capital commitments

	31 March 2007 £000	25 December 2005 £000
Capital expenditure contracted but not provided	1,847	661

23 Contingent liabilities

Performance bonds amounting to £3,544,815 (2005 £3,544,815) have been given by the company in the normal course of business

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Notes (continued)

24 Pension arrangements

The company is a member of a larger group wide pension scheme providing benefits based on final pensionable pay. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for, in these financial statements as if the scheme was a defined contribution scheme.

The latest full actuarial valuation was carried out at 31 March 2004 and was updated for accounting purposes to 2007 by a qualified independent actuary. The pension charge for the period was £3,250,000 (2005 £nil). At 31 March 2007, contributions amounting to £395,000 (2005 £nil) were payable to the funds and are included in creditors.

The net pension liability on the group wide pension scheme at 31 March 2007 was £33,065,000. This represents the liability to VT Group plc as a whole and does not represent a liability to the company.

The company also operated several defined contribution pension schemes. The pension cost charge for the period includes contributions payable by the company to these funds amounting to £22,000 (2005 £nil). At 31 March 2007, contributions amounting to £3,000 (2005 £nil) were payable to the funds and are included in creditors.

Pension costs of £749,000 in respect of the RAC Group pension scheme were charged to the profit and loss account in the period.

25 Related party transactions

The company owns 50% of Whitefleet Limited (formerly Lex Defence (Whitefleet) Limited). Transactions during the period and the balance outstanding at the period end with this related party are as follows:

	66 weeks ended 31 March 2007 £000	52 weeks ended 25 December 2005 £000
Sales	671	803
Balance outstanding due (by)/to VT Critical Services Limited	(144)	288
Balance outstanding due by VT Critical Services Limited for the provision of cash flow facility	(237)	(264)

26 Events after the balance sheet date

Events after the balance sheet date requires the disclosure of changes in tax rates either enacted or announced after the balance sheet date that significantly affect current and deferred tax assets and liabilities. The announcement of a change in tax rate from 30% to 28%, effective from 1 April 2008, will impact the deferred tax balances set out in these accounts. This change is a non adjusting event at present, as the change in rate is not yet substantively enacted per FRS 19.

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Notes *(continued)*

27 Ultimate parent company

The company is a subsidiary undertaking of VT Support Services Limited, a company incorporated in Great Britain and registered in England and Wales

The largest group in which the results of the company are reported is that headed by VT Group plc. The consolidated financial statements are available to the public at that company's registered office of Grange Drive, Hedge End, Southampton. No other financial statements include the results of the company