

FIRST MANCHESTER LIMITED

Report and Financial Statements

31 March 2005



A59 *A52NHCJG* 705
COMPANIES HOUSE 31/01/2006

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DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

ACTIVITIES

The principal activity of the company is the provision of public transport by road.

REVIEW OF DEVELOPMENTS

The company made a profit before tax of £6.729m (2004 - £6.327m) during the year.

The future prospects of the company are deemed to be satisfactory.

FINANCIAL MATTERS

The retained profit for the year of £0.713m (2004 loss of - £9.519m) has been transferred to reserves.

The directors recommend payment of a dividend of £4.233m (2004 - £13.955m).

FIXED ASSETS

In the opinion of the directors, there were no material differences between the market values of the company's properties and their net book values.

SUPPLIER PAYMENT POLICY

It is the company's policy to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods and services in accordance with agreed terms and conditions. A number of significant purchases, such as fuel and tyres, commitments under finance leases and hire purchase contracts and under operating leases are paid by direct debit. At 31 March 2005 the company had 25 days' (31 March 2004 - 25 days) purchases outstanding.

DIRECTORS AND THEIR INTERESTS

The directors who held office throughout the year (except as noted) and subsequently appointed are as follows:

G A Houston	
R J Gard	(resigned 14 February 2005)
M J Mitchell	(resigned 20 July 2004)
D J Leeder	(resigned 10 August 2004)
C Stafford	
B Pybis	(resigned 28 June 2004)
D A Kaye	(appointed 1 July 2004)
J I Davies	(appointed 1 July 2004)
M Wilson	(appointed 21 December 2004)

None of the directors held any shares in the company at any time during the year.

The interests of Houston, Stafford, Kaye and Davies in the shares of First Group plc are disclosed in the directors' report of First North West Limited.

There is no contract or arrangement with the company or any of its fellow group undertakings, other than service contracts in which any of the directors is materially interested and which is significant in relation to the business of the company or any of its fellow group undertakings taken as a whole.

DIRECTORS' REPORT (continued)

EMPLOYMENT INVOLVEMENT

Communication with employees is effected mainly through regular briefing and negotiating meetings between the directors, the senior management and employee representatives on the central and depot negotiating committees. The briefing meetings enable senior management to consult employees and to ascertain their views on matters likely to affect their interests. Employee involvement has been extended by the appointment of employee directors nominated by the workforce.

DISABLED PERSONS

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

CHARITABLE AND POLITICAL DONATIONS

The company made various donations to UK charities totalling £1,050 (2004 - £466) during the year. There were no payments made for political purposes.

AUDITORS

The company has passed an elective resolution dispensing with the requirement to appoint auditors annually; Deloitte & Touche LLP have indicated their willingness to continue as auditors of the company and are therefore deemed to be re-appointed for a further term.

Approved by the Board of Directors
and signed on behalf of the Board on

30 August 2005.

Director
Wallshaw Street
Oldham
OL1 3TR



STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial year and of the profit or loss of the company for that period. In preparing those 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; 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 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 the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF FIRST MANCHESTER LIMITED

We have audited the financial statements of First Manchester Limited for the year ended 31 March 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movement in shareholders' funds and the related notes 1 to 24. 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 auditors' 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

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements, or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 the company's affairs as at 31 March 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

31 August 2005

FIRST MANCHESTER LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2005

	Note	2005 £'000	Restated (note 1(f)) 2004 £'000
TURNOVER	2	80,404	73,147
OPERATING COSTS			
Operating expenses	4	(73,398)	(66,348)
OPERATING PROFIT		7,006	6,799
Net interest payable and similar charges	5	(277)	(472)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2,6	6,729	6,327
Tax charge on profit on ordinary activities	7	(1,783)	(1,891)
PROFIT FOR THE FINANCIAL YEAR		4,946	4,436
Equity dividends paid	8	(4,233)	(13,955)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR	19	713	(9,519)

All activities relate to continuing operations.

FIRST MANCHESTER LIMITED

BALANCE SHEET 31 March 2005

	Note	£'000	2005 £'000	£'000	Restated (note 1(i)) 2004 £'000
ASSETS EMPLOYED					
FIXED ASSETS					
Intangible assets	9	1,085		1,163	
Tangible assets	10	47,272		46,533	
Investments	11	1,405		1,405	
			49,762		49,101
CURRENT ASSETS					
Stocks	12	679		577	
Debtors: amount receivable in less than one year	13	12,384		12,696	
Debtors: amount receivable in more than one year	13	2,320		5,478	
Cash at bank and in hand		14,677		11,438	
		30,060		30,189	
CREDITORS: amounts falling due within one year	14	(71,680)		(70,016)	
NET CURRENT LIABILITIES			(41,620)		(39,827)
TOTAL ASSETS LESS CURRENT LIABILITIES			8,142		9,274
CREDITORS: amounts falling due After more than one year	15		-		(1,151)
PROVISIONS FOR LIABILITIES AND CHARGES	16		(7,731)		(8,425)
NET ASSETS/(LIABILITIES)			411		(302)
CAPITAL AND RESERVES					
Called up share capital	18		-		-
Profit and loss account	19		411		(302)
EQUITY SHAREHOLDERS' FUNDS/ (DEFICIT)			411		(302)

These financial statements were approved by the Board of Directors on
Signed on behalf of the Board of Directors

30 August 2005

 - Director

FIRST MANCHESTER LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 31 March 2005

	Note	2005 £'000	Restated (note 1(f)) 2004 £'000
Profit for the financial year		4,946	4,436
Total recognised gains and losses relating to the year		4,946	4,436
Prior year adjustment	20	(1,354)	
Total gains and losses recognised since last annual report and financial statements		3,592	

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS/(DEFICIT) Year ended 31 March 2005

	2005 £'000	Restated (note 1(f)) 2004 £'000
Profit for the financial year	4,946	4,436
Dividends paid and proposed	(4,233)	(13,955)
Net addition to/(reduction in) shareholders' funds	713	(9,519)
Opening shareholders' (deficit)/funds	(302)	9,217
Closing shareholders' deficit	411	(302)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

1. PRINCIPAL 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.

(a) Basis of preparation

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

(b) Revenue recognition

Turnover principally comprises amounts receivable from ticket sales and concessionary fare schemes. Concessionary amounts are recognised in the period in which the service is provided based on a predetermined formula as agreed with the relevant local authority. Other Bus and services revenue from contracts with government bodies and similar organisations are recognised as the services are provided.

(c) Fixed assets and depreciation

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation is provided to write off the cost, less residual value of tangible fixed assets, over their estimated useful economic lives, as follows:

Freehold buildings	50 years straight-line
Long leasehold properties	50 years straight-line
Passenger carrying vehicles	7 to 15 years straight-line
Other plant and equipment	3 to 8 years straight-line

No depreciation is provided on freehold land or the land element of long leasehold properties.

(d) Investments

Fixed asset investments are shown at cost less provision for impairment.

(e) Leases and hire purchase

Assets held under finance leases, which are those leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and under hire purchase contracts are recorded in the balance sheet date as tangible fixed assets. Depreciation is provided on these assets over the shorter of their estimated useful lives or lease term, as appropriate.

Future obligations under finance leases and hire purchase contracts are included in creditors, net of finance charges. Payments are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligations. The finance charges are calculated in relation to the reducing amount of obligations outstanding and are charged to the profit and loss account on the same basis.

All other leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

(f) Government grants

Amounts receivable for tendered services and concessionary fare schemes are included in turnover. Rebates in respect of duty paid on fuel are netted off operating costs.

(g) Stocks

Stocks are valued at the lower of cost and net realisable value. Provision is made for obsolete and slow moving or defective items where appropriate.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) 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 assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

(i) Goodwill

Purchased goodwill is capitalised and classified as an intangible fixed asset on the balance sheet. Prior to 1 April 1998, purchased goodwill was written off to reserves in the year it was acquired. This goodwill has not been reinstated. On disposal of the businesses concerned this goodwill is included in determining the gain or loss on disposal in the profit and loss account.

Where capitalised goodwill is regarded as having a limited useful economic life, it is amortised over that life, but where capitalised goodwill is regarded as having an indefinite useful economic life, it is not amortised. Where capitalised goodwill is amortised over a life of greater than 20 years, or is not amortised, annual impairment reviews are conducted to compare the book value with the recoverable amount. If the recoverable amount has fallen below the book value, the goodwill is written down to the recoverable amount immediately.

All capitalised goodwill in the balance sheet at the year-end is being amortised over a period of 20 years on a straight-line basis.

(j) Cash flow statement

The company is a wholly owned subsidiary of FirstGroup plc, a company registered in Scotland. Accordingly, the company has taken advantage of the exemption conferred by Financial Reporting Standard 1 enabling it not to produce a cash flow statement as the parent company has included a consolidated cash flow statement within its Group financial statements.

(k) Pension costs

Retirement benefits are provided for most employees of the company by means of a defined benefit pension scheme. This is funded by contributions from the company and employees. The company's contributions are charged to the profit and loss account based on recommendations by an independent actuary, in such a way as to provide for the liabilities evenly over the average remaining working lives of the employees. The difference between the charge to the profit and loss account and the contributions paid by the company is shown as an asset or liability in the balance sheet and the tax effect of this timing difference is included in deferred taxation.

(l) Prior year adjustment

In the prior year the company entered into certain commitments with regards to a loyalty bonus scheme for employees, however, no provision was made for the related financial obligation. This error has been corrected in the current year and the prior year balances have been restated as summarised below:

	2005 £'000	2004 £'000
Profit and loss account		
Operating expenses – staff costs	517	(1,934)
Tax charge on profit on ordinary activities	(155)	580
Increase/(decrease) in profit for the financial year	362	(1,354)
Balance sheet		
Creditors: Amounts falling due within one year	362	(1,354)
Increase/(decrease) in net assets	362	(1,354)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

2. TURNOVER AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover represents the amounts receivable for services supplied to customers during the year.

The whole of the profit on ordinary activities before taxation derives from the company's principal activities within the United Kingdom. The company has one principal class of business, namely the provision of passenger transport services.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

All of the directors who held office during the year also served on the Board of First North West Limited and since 1 April 2002, directors' emoluments have been paid by that company. It is not considered practicable to allocate the remuneration received between that in respect of directors' service to First Manchester and that in respect of First North West. Accordingly, all directors' emoluments are disclosed in the accounts of First North West.

	2005 No	2004 No
The average number of persons employed by the company (including directors) during the year was as follows:		
Drivers	1,649	1,637
Maintenance and traffic	401	397
Administration	42	45
	<u>2,092</u>	<u>2,079</u>
		Restated (note 1(l))
	£'000	£'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	39,504	33,532
Social security costs	3,104	2,676
Pension costs	3,469	1,682
	<u>46,077</u>	<u>37,890</u>

4. OPERATING COSTS

	2005 £'000	Restated (note 1(l)) 2004 £'000
Materials and consumables	10,585	11,081
Staff costs	46,077	37,890
Other external charges	11,671	11,822
Depreciation and other amounts written off tangible fixed assets		
- owned assets	4,252	4,209
- leased assets	735	1,274
Amortisation of goodwill	78	72
	<u>73,398</u>	<u>66,348</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

5. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2005	2004
	£'000	£'000
Finance charges payable in respect of finance leases and hire purchase contracts	158	350
Other interest payable	119	122
	<u>277</u>	<u>472</u>

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2005	2004
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and other amounts written off tangible fixed assets	4,987	5,483
Profit on sale of fixed assets	(21)	(3)
Amortisation of goodwill	78	72
Rentals payable under operating leases		
- plant and machinery	244	462
- land and buildings	40	38
Recharge from First North West Ltd for central services	3,341	3,792
Government grants and subsidies	(23,185)	(21,260)

Audit fees and non audit fees have been borne by First North West Limited on behalf of First Manchester Limited.

7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2005	Restated (note 1(i)) 2004
	£'000	£'000
Current taxation		
- Group relief payable	2,713	2,534
- Adjustment in respect of prior years	(236)	4
Total current taxation	<u>2,477</u>	<u>2,538</u>
Deferred taxation		
- Origination and reversal of timing differences	(722)	(581)
- Adjustment in respect of prior years	28	(66)
Total deferred taxation	<u>(694)</u>	<u>(647)</u>
Total tax charge on profit on ordinary activities	<u>1,783</u>	<u>1,891</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

7. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES (continued)

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 30% (2004 – 30%). The actual current tax charge for the current and previous year differed from the standard rate for the reasons set out in the following reconciliation:

	2005 %	Restated (note 1(1)) 2004 %
Standard rate of taxation	30.0	30.0
Factors affecting charge:		
Expenses not deductible for tax purposes	(0.3)	0.8
Capital allowances in excess of depreciation	2.1	7.3
Other timing differences	8.5	1.9
Prior years' tax charge	(3.5)	0.1
Current taxation rate for the year	36.8	40.1

No deferred tax charge has been recognised on property gains as it is anticipated that roll over relief will be available. To benefit from the relief, the proceeds should be reinvested in new property within three years of disposal. The tax that would be payable assuming that reinvestment was not made within three years amounts to £1.4m (2004: £0.9m).

8. EQUITY DIVIDENDS

	2005 £'000	2004 £'000
Ordinary shares of £1 each		
- final paid £42,330 (2004 - £139,550) per share	4,233	13,955

The dividend declared and paid in the prior year was based on the distributable reserves per the accounts prior to the restatement (see note 1(1)). When the restatement was recorded this showed that the distributable reserves were reduced and therefore the dividend paid exceeded adjusted distributable reserves by £302,000. The directors have decided not to recall or adjust the dividend previously paid which was determined on the basis of their assessment of distributable reserves at that time.

9. INTANGIBLE FIXED ASSETS

	Goodwill £'000
Cost	
At beginning and end of year	1,522
Amortisation	
At beginning of year	359
Charge for the year	78
At end of year	437
Net book value	
At 31 March 2005	1,085
At 31 March 2004	1,163

The directors have reviewed the useful economic life of the above goodwill. In their opinion it has a life of 20 years and is being amortised over that period on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

10. TANGIBLE FIXED ASSETS

	Land and buildings £'000	Passenger carrying vehicle fleet £'000	Other plant and equipment £'000	Total £'000
Cost				
At 1 April 2004	13,538	73,156	6,012	92,706
Additions	941	1,222	375	2,538
Intra-group transfers	-	2,067	-	2,067
Disposals	-	(2,903)	-	(2,903)
At 31 March 2005	14,479	73,542	6,387	94,408
Depreciation				
At 1 April 2004	1,269	42,220	2,684	46,173
Charge for year	164	4,437	386	4,987
Intra-group transfers	-	(1,237)	-	(1,237)
Disposals	-	(2,787)	-	(2,787)
At 31 March 2005	1,433	42,633	3,070	47,136
Net book value				
At 31 March 2005	13,046	30,909	3,317	47,272
At 31 March 2004	12,269	30,936	3,328	46,533

The net book value of land and buildings comprises:

	2005 £'000	2004 £'000
Freehold	9,824	9,889
Long leasehold	3,222	2,380
	<u>13,046</u>	<u>12,269</u>

Certain properties are subject to profit clawback arrangements if sold within a specified period. At present there is no proposal to divest any of the properties concerned.

£4.872m (2004 - £10.544m) of the net book value of the passenger carrying vehicle fleet was acquired under finance leases and hire purchase contracts. The depreciation charge on these assets during the year was £0.735m (2004 - £1.274m).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

11. FIXED ASSET INVESTMENTS

	Subsidiary undertakings (unlisted) £'000
Shares	
Cost at the beginning and end of year	1,506
Provisions at the beginning and end of year	(101)
Net book value at the beginning and end of the year	1,405

The company owns 100% of the issued share capital of First Ashton Limited and Bolton Coachways & Travel Limited, both of which are dormant companies.

All subsidiary undertakings are wholly owned at the end of the year. All these companies are incorporated in Great Britain and registered in England and Wales.

All shares held in subsidiary undertakings are ordinary shares.

Group accounts are not presented as the company is a wholly owned subsidiary undertaking of FirstGroup plc, which is incorporated in Great Britain and registered in Scotland and which itself prepares consolidated accounts. Accordingly, these accounts present information about the company as an individual undertaking and not about its group.

12. STOCKS

	2005 £'000	2004 £'000
Spare parts and consumables	679	577

There is no material difference between the balance sheet value of stocks and their replacement cost.

13. DEBTORS

	2005 £'000	2004 £'000
Amounts due within one year		
Trade debtors	3,662	2,545
Amounts owed by group undertakings	3,417	7,527
Other debtors	2,502	1,249
Prepayments and accrued income	720	717
Pension fund prepayment (see note 23)	2,083	658
	12,384	12,696
Amounts due after more than one year		
Operators licence due after more than one year	161	54
Pension fund prepayment (see note 23)	2,159	5,424
	2,320	5,478
Total debtors	14,704	18,174

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2005	Restated (note 1(i)) 2004
	£'000	£'000
Obligations under finance leases and hire purchase contracts	1,122	2,070
Trade creditors	158	1,593
Amounts owed to group undertakings	63,753	62,609
Corporation tax	1	172
Other tax and social security	1,000	-
Other creditors	1,715	79
Accruals and deferred income	3,931	3,493
	<u>71,680</u>	<u>70,016</u>

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

	2005	2004
	£'000	£'000
Obligations under finance leases and hire purchase contracts		
Due in more than one year but not more than two years	-	1,151
	<u>-</u>	<u>1,151</u>

Finance lease and hire purchase contract liabilities are secured on the assets to which they relate.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £'000
At beginning of year	8,425
Credited to the profit and loss account	(694)
At end of year	<u>7,731</u>

Details of the deferred tax provision are given in note 17.

17. DEFERRED TAXATION

Provision for deferred taxation consists of the following amounts.

	2005	2004
	£'000	£'000
Capital allowances in excess of depreciation	6,596	6,828
Other timing differences	1,135	1,597
Total provision	<u>7,731</u>	<u>8,425</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

18. CALLED UP SHARE CAPITAL

	2005 £'000	2004 £'000
Authorised, allotted, called up and fully paid 100 Ordinary shares of £1 each	-	-

19. PROFIT & LOSS ACCOUNT

	£'000
At 1 April 2004	1,052
Prior year adjustment (note 1(l))	(1,354)
At 1 April 2004 as restated	(302)
Retained profit for the year	713
31 March 2005	411

The cumulative amount of negative goodwill added to the profit and loss account is £9,479,000 (2004 - £9,479,000).

20. COMMITMENTS

Capital expenditure

There are no capital commitments in the current or prior year.

Operating leases

Commitments for payments in the next year under operating leases are as follows:

	Land and buildings 2005 £'000	Land and buildings 2004 £'000	Plant and machinery 2005 £'000	Plant and machinery 2004 £'000
Operating leases which expire:				
From two to five years	40	38	244	342

21. CONTINGENT LIABILITIES

The company has guaranteed the bank overdrafts of certain fellow subsidiary undertakings. The amount outstanding at the end of the year under the guarantees was £8.2m (2004 - £33.0m).

Together with other group subsidiaries, the company has guaranteed the bank loans of its holding company under various term facilities. The amount of the guaranteed bank loan at the end of the year was £220.0m (2004 - £129.6m).

The company is a member of a VAT group covering a number of subsidiary undertakings. All members are joint and severally liable in respect of any VAT owed to HM Customs and Excise.

22. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption conferred by para 3 of FRS 8 "Related Party Transactions" in not disclosing any transactions with other members of the FirstGroup plc group.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2005

23. PENSION SCHEME

The total pension charge for the company to the profit and loss account during the year was £3.469m (2004 - £1.682m).

First Group North West Pension Scheme

The company participated in the First Group North West Pension scheme which provides benefits of the defined type and is a multi-employer scheme. During the year the assets of this scheme were transferred to the FirstGroup plc UK Bus Pension Scheme.

FirstGroup UK Bus Pension Scheme and Flexible Benefits Scheme

SSAP 24

At their latest triennial valuations, the defined benefit schemes had funding levels of between 68% and 121%. The market value of the assets at 31 March 2005 for all defined benefit schemes totalled £1,580m (2004 - £1,254m). Contributions are paid to all defined benefit schemes in accordance with rates recommended by the schemes' actuaries.

The valuation assumptions used for accounting purposes have been made uniform to Group standards, as appropriate, when each scheme is actuarially valued. For these new valuations, the assumptions which are being used are that the rate of return on investment will be 7.0% pre-retirement (6.75% in respect of future benefit accrual) and 6.0% post-retirement (5.75% in respect of future benefit accrual), the rate of earnings growth will be 4.0%, and the rate of inflation will be 2.5%. These valuations are made using the projected unit method.

FRS 17

The additional disclosures required by FRS 17 during the transitional period for the defined benefit schemes are not reported as the company is unable to identify its share of the underlying assets and liabilities of the multi-employer defined benefit schemes. Accordingly, the defined benefit scheme is accounted for as a defined contribution scheme.

The deficit on the group schemes of £137.9m (2004 - £146.9m) will affect the company through periodic adjustments to the company's contribution rate as determined by the actuary. Additional disclosures required under FRS 17 have been made on a group basis in the accounts of First Group plc.

Greater Manchester Pension Fund

The company also participates in the Greater Manchester County Superannuation Fund, which operates within the requirements of the Local Government Superannuation Regulations and provides defined benefits. The assets of the scheme are held in separate trustee administered funds. Thus whilst the scheme is a multi-employer scheme the assets and liabilities relating to First Group plc subsidiaries can be separately identified. In addition the company provides self-funded and ex-gratia benefits, supplementing those payable from the Greater Manchester Pension Fund and also operates a defined contribution pension scheme.

Cash contribution rates are determined by the fund's actuary on the basis of triennial valuations.

A full actuarial valuation was carried out at 31 March 2004. As a result of this a cash contribution rate of 11.5% will be applied in the coming year.

The past contribution rate was determined using the projected unit method and assumed investment returns would be 6.25% per annum, earnings increases would average 4.4% per annum and present and future pensions would increase at the rate of 2.9% per annum.

The additional disclosures required by FRS 17 during the transitional period for the defined benefit scheme are set out below, based on the most recent actuarial valuation described above, which has been updated by independent professional qualified actuaries to take account of the requirements of FRS 17.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

23. PENSION SCHEME (continued)

The main financial assumptions used in this update were as follows:

	2005	2004	2003
	%	%	%
Rate of increase of salaries	4.1	4.1	3.6
Rate of increase of pensions in payment	2.6	2.5	2.1
Discount rate	5.5	5.7	5.7
Inflation assumption	2.6	2.6	2.1

The fair value of the Scheme's assets, the present value of the liabilities in the scheme and the expected rates of return as at 31 March 2005, 2004 and 2003 were:

	31 March 2005		31 March 2004		31 March 2003	
	Expected rate of return	Value £m	Expected rate of return	Value £m	Expected rate of return	Value £m
Equities	8.8%	85.1	8.8%	79.6	8.8%	64.2
Bonds	4.7%	29.3	4.7%	25.1	4.5%	24.2
Property	6.7%	12.8	6.7%	13.3	6.7%	6.6
Other	3.6%	10.3	4.1%	6.2	3.6%	7.3
Total fair value of assets		137.5		124.2		102.3
Present value of scheme liabilities		(153.0)		(145.2)		(124.7)
Deficit in the scheme		(15.5)		(21.0)		(22.4)
Related deferred tax asset		4.7		6.3		6.7
Net pension liability		(10.8)		(14.7)		(15.7)

If FRS 17 had been adopted in these financial statements, the company's profit and loss accounts would have included the following operating costs:

	2005 £m	2004 £m
Current service costs	3.3	3.2

The following amounts would also have been included as finance costs.

	2005 £m	2004 £m
Expected return of pension scheme assets	(9.3)	(7.4)
Interest on pension scheme liabilities	8.2	7.1
Net return	(1.1)	(0.3)

The total profit and loss charge before deduction for tax would have been £2.2m (2004 – £2.9m).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

23. PENSION SCHEME (continued)

The following amounts would have been disclosed in the statement of total recognised gain and losses if FRS 17 had been adopted:

	2005 £m	2004 £m
Actual return less expected return on pension scheme assets	5.4	15.0
Experience gains and losses arising on the scheme liabilities	5.4	(1.1)
Changes in assumptions underlying the present value of the scheme liabilities	(4.2)	(10.5)
Actuarial gain	<u>6.6</u>	<u>3.4</u>

The detail of the amounts which would have been included in the statement of total recognised gains and losses is as follows:

	2005	2004	2003
Difference between the expected and actual return on scheme assets:			
Amount (£ million)	5.4	15.0	(33.3)
Percentage of scheme assets	3.9%	12.1%	(32.6)%
Experience gains and losses on scheme liabilities			
Amount (£ million)	5.4	(1.1)	8.1
Percentage of the present value of scheme liabilities	3.5%	(0.8)%	6.5%
Total actuarial gain/(loss)			
Amount (£ million)	6.6	3.4	(25.6)
Percentage of present value of scheme liabilities	4.3%	2.3%	(20.5)%

The movement on the deficit was:

	2005 £m	2004 £m
Deficit in scheme at beginning of the year	(21.0)	(22.4)
Movement in year		
Current service cost	(3.3)	(3.2)
Contributions	1.1	0.9
Actuarial gain	6.6	3.4
Net finance income	1.1	0.3
Deficit in scheme at end of year	<u>(15.5)</u>	<u>(21.0)</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2005

23. PENSION SCHEME (continued)

If FRS 17 had been adopted, the company's net assets and profit and loss reserve would have been as follows:

	2005 £m	Restated (note 1(i)) 2004 £m
Net assets/(liabilities) excluding pension deficit	0.4	(0.3)
Pension liability (net of deferred tax)	(10.8)	(14.7)
	(10.4)	(15.0)
Less: SSAP 24 items included in net assets that would be reversed on implementation of FRS 17	(4.2)	(4.3)
Net liabilities on FRS 17 basis	(14.6)	(19.3)
Profit and loss reserve excluding pension liability	(0.4)	(0.3)
Pension liability (net of deferred tax)	(10.8)	(14.7)
	(10.4)	(15.0)
Less: SSAP 24 items included in net assets that will be reversed on implementation of FRS 17	(4.2)	(4.3)
Profit and loss deficit on FRS 17 basis	(14.6)	(19.3)

24. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The ultimate holding company and controlling party is FirstGroup plc, which is incorporated in Great Britain and registered in Scotland. Copies of the accounts of FirstGroup plc can be obtained from the London office of this company at 3rd Floor Macmillan House, Paddington Station, London W2 1FG. The immediate parent company is First North West Limited.